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Response to Woo-Cumings

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The term "globalization" has become a catch-all in the 1990s, a term that, depending on your outlook and current events, refers to the golden path to a prosperous new world or the rocky road to the next great depression. For a long time, the golden-path theory prevailed, but lately the opinions about the G word have changed markedly. A recent article in the *New York Times* summed up the mood swing on the Russian and Asian economic crises by saying that "investors have already begun to treat 'global' as a bad word." The article quoted Jeffrey E. Garten, dean of the Yale School of Management, who asserted that crises "tell a story about the downside of globalization."[1]

But what exactly is this process of globalization that everybody talks about? Delve deeper and you may find that the topic of globalization is as varied as the world itself and that discussions about it can turn into discussions about vastly different topics. Entirely separate conversations could be built around such topics as the globalization of popular culture, the impact of conflict on the global marketplace, the environmental ramifications of globalization, or labor relations in a globalized economy. Even confining the discussion to the economic sphere, as this Roundtable does, will not ensure that everybody talks about the same thing. There's globalization and world currencies, corporate regulation in a globalized economy, the impact of technology on the global marketplace, the role of global bodies such as the IMF and the World Bank, and the list goes on.

My point is that, despite the ease with which the G word rolls off the tongue, off the presses, and out of the television tube, this topic is about as macro as you can get, so even discussion about a particular aspect of globalization can spin off in a number of different directions. Thus, when Dr. Woo-Cumings addresses issues of corporate governance in South Korea (hereafter referred to as Korea), she talks about concepts such as transparency, management responsibility to shareholders, and the need for external audits. I will suggest in this response that these are among several "ground zero" tenets of corporate law that the global community should strive to introduce in all countries, but they are not the only ones. Furthermore, I contend that the key corporate-governance issues flowing from globalization differ from country to country and that the regulatory issues that, say, Australia faces in an increasingly global economy are quite different from those faced by Korea.

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I admit from the outset that I had difficulty extracting the "bigger-picture" point in Dr. Woo-Cumings's article from her detailed example of what has happened in Korea. I believe, however, that the underlying point Dr. Woo-Cumings draws from the Korean example is that no universal system of corporate governance can be applied to all countries; although business is becoming increasingly global, the likelihood of all countries adhering to a common set of corporate standards is slim. Dr. Woo-Cumings talks about the close relationship that exists between the banks, the large corporate conglomerates, or *chaebols*, and the Korean government, and she explains the link between these relationships and the country's financial woes. She suggests that transparency, external audits, and more accountable management might be desirable goals in a country like Korea, but that it is unrealistic to expect these concepts to be quickly and seamlessly introduced. The reason? Because Korean business practices and regulations have evolved over time and in a particular political, social, and historical context and, thus, cannot be unraveled in an instant. Furthermore, we cannot expect Korea, or any other country for that matter, to adopt reforms that make its corporations less competitive in an increasingly ruthless global economy.

As an Australian, I naturally read Dr. Woo-Cumings's article through the prism of Australia, and my first vivid observation was how different my country is from South Korea and, for that matter, from most other countries in the region. Dr. Woo-Cumings makes the sensible point that there is no such homogeneous thing as Asia, but even so, I would venture that the differences between Australia and its Asian neighbors are much greater than those among other Asian countries. Historically tied to Britain, culturally an amalgamation of British and American influences, and geographically located in the Asian Pacific, Australia is like the kid in the schoolyard who doesn't quite fit in anywhere. In a globalized world in which regions are banding together for economic synergies — witness the European Union and the North American Free Trade Agreement—Australia is left in a difficult position.

In the early 1990s, the drive was to reposition ourselves away from our colonial roots and identify more closely with Asia, a move motivated in part by a desire to ride the crest of the Asian economic wave. The hope was that Asian countries would turn to Australia when they needed Western expertise and that Western companies expanding into Asia would put their Asian Pacific headquarters in Australia, where they would feel culturally at home and economically safe. This has happened to some extent but not as much as anticipated, and in the past few years, a harsh realization has set in: Australia might want to be part of Asia, but Asia does not necessarily see Australia as part of it. When the Asian economic crisis hit, the issue was thrown into stark relief. Was Australia going to be a good friend, available for its neighbors in bad times as well as good, or would it seek to distance itself from Asia and thus show that its previous efforts at closeness were merely opportunistic? Paul Dibb and his colleagues deal briefly with this issue in an article titled "The Strategic Implications for Asia's Economic Crisis." They quote senior Singapore cabinet minister George Yeo describing Australia's reaction to the Asian crisis as "correct but tentative." According to Yeo, "It is the reaction of someone on the margin, not an important player, not a crucial partner…If you stay on the sidelines then there is no bonding and you stay out permanently." Dibb says Australia's lobbying of the IMF to relax its demands on Indonesia is "the type of practical diplomatic support . . . (that) will enhance Australia's standing in the region."[2] Dr. Woo-Cumings's detailed look at Korea highlights the differences between Australia and other countries in the region and, consequently, illuminates the difficult road ahead in defining its role in the region.

Dr. Woo-Cumings shows how difficult it is to introduce transparency and other tenets of Western corporate law to non-Western countries. In a nutshell, her Korean example suggests it is not going to be as easy as it sounds, but this is not an argument for giving up. It is, rather, an argument for ensuring that expectations are realistic, both in terms of what can be achieved and when. There is considerable talk at present about the need for a set of "ground zero" international rules to govern business in the globalized economy. In fact, the *New York Times* recently reported that a clear consensus had emerged from the meeting of world finance ministers and central bank governors in Washington for a series of global rules on transparency.[3]

All this talk of global ground rules makes me wonder who the main beneficiaries of such rules would be? Who will be the winners if countries around the world are convinced of the need to make financial reporting more transparent, make management more accountable to shareholders, and make bribery and corruption less commonplace? Who will benefit from rules that essentially make doing business more homogenous around the world? To my mind, the greatest beneficiaries of such homogeneity will be the multinationals, who will be better able to streamline their operations worldwide and won't have to spend the time and money they currently spend understanding the peculiarities of business dealings in various different countries. And given that nearly 50 percent of the top 1,000 global companies are American and another third are European, this means the main beneficiaries will be Western multinationals.[4]

The country in question will also benefit from more foreign investment if the rules mean the multinationals are more willing to set up there. But what about the people, the workers in each of these countries? What do they gain if the multinational for which they work streamlines its operations? In some cases, what's good for the employer will be good for the employee; if the company is successful and growing, there is more work to be done and thus more wages, increased bonuses, and perhaps even a slice of the profits to take home. But what if the minimum wage in that country is less than three dollars a day? What if the norm is to work a twelve-hour day seven days a week in an airless, windowless factory? And what if the multinational employer sends all its profits straight back to its American or European head office? I don't think workers in this scenario will benefit much from increased transparency or greater accountability of management to shareholders. Nike's reputation was tarnished last year when reports emerged of workers in its Southeast Asian factories laboring in sweatshops, and it is undoubtedly not the only multinational taking advantage of low wages and poor working conditions in some Southeast Asian countries.

In her examination of the Chinese family firm, Dr. Woo-Cumings implicitly warns against assuming that the Western model is necessarily the best for the new global marketplace. My point is a corollary to that: If a set of global rules for global business is going to be formulated then the content of those rules should not be determined simply by what best suits the Western world. If the Western world is going to invest time and money in convincing non-Western countries that transparency, external auditing, and abolishing bribery are good things, then it should invest equal time and money in convincing them that child labor, discrimination, poor working conditions, poor wage levels, and twelve-hour work days are not good things. If we are going to consider rules that can be implemented globally, then we should look beyond what is best for the Western multinational.

Moving away from the issue of global rules and toward the specifics of corporate governance in each particular country, it is clear that governance issues stemming from globalization differ from country to country. Increasing transparency, accountability to shareholders, external audits, and foreign participation are the corporate-governance issues facing Korea, according to Dr. Woo-Cumings. But the regulatory issues that my country, Australia, faces are not the same as those faced by Korea. Because the Australian legal system is based on Britain's Westminster system, issues such as transparency and accountability of management to shareholders are central tenets of our corporate law. Although they do not always work perfectly, they are generally taken for granted.

To my mind, the main corporate governance issue resulting from globalization in Australia is deciding where to draw the line between allowing Australian companies to be big enough to compete on the world stage and ensuring healthy competition within the Australian marketplace. Tied up in all this is the question of foreign ownership and the ever-present fear that, if our companies are not allowed to grow big enough to compete globally, they will be eaten up by their giant foreign competitors. The dire end result would be that Australia is marginalized in the global game. This recalls one of Dr. Woo-Cumings's points — that it is folly to assume any country will introduce changes that make its companies less competitive. I would add that it is also folly to assume that a government will introduce regulatory changes that, while making its companies more globally competitive, will have a negative impact on the citizens of its country.

The size issue is important in Australia because of our small population — only 18.5 million people. Australian companies will, through local organic growth alone, never reach the size of competitors with a home market of 150 million people or more. A look at *Business Week*'s most recent list of the top 1,000 global companies is instructive: the market capitalization of Australia's largest company, Telstra, roughly equals that of the sixty-ninth largest U.S. company, Freddie Mac, and is one-ninth that of the largest company in the world, General Electric (also American).[5]

The *Business Week* article notes that the question in this global world has indisputably moved from " 'Is your company too big?' to 'Is your company big enough?' "[6] Many Australian companies believe acquisition, both locally and internationally, is the only way they will ever get "big enough" to compete with their massive Northern counterparts. They also argue that such critical mass is imperative to their very survival: with the Australian dollar plumbing new depths against the greenback, even successful Australian companies can become attractive takeover targets to their giant international competitors.

But in a small market like Australia the "bigger is better" creed must be balanced against the need for healthy competition, the accepted wisdom being that monopolies and duopolies tend not to produce the best prices and best products for consumers. Take the banking industry, for example. Four Australian banks are large enough to make it into the top 1,000 global companies—namely, the National Australia Bank, the ANZ, Westpac Banking Corp., and the Commonwealth Bank. The largest of these, the National Australia Bank, has long argued that in order to gain the critical mass required to compete with the international banking giants, it must be free to take over one of the other big three, and others have also argued that mergers between the Big Four are necessary if our banks are to play on the world stage. So far, though, the federal government has prohibited mergers between the Big Four, on the basis that this would concentrate the market too much. The fear is that fewer big players would mean less competition on home-loan rates, poorer service, less inclination to provide services to customers in sparsely populated areas of the country, and so on. So the regulatory line in the sand has been drawn in favor of local competition and what's best for the local consumer, rather than what makes our companies more globally competitive. Many argue that this line is drawn in the wrong spot, and that we should be more concerned about ensuring that our companies can compete globally. And, indeed, there have been some indications that the government might allow mergers between the Big Four in the near future. But regardless of the end result, the regulatory argument has been between what is best for Australian people and what is best for Australian companies. What is best for the global marketplace and the global economy runs a poor third.

I have tried to demonstrate two points in my response. First, that aiming for a set of global business rules is a good ideal, but it should not be done simply from the viewpoint of the Western world. If there is going to be global regulation, it should benefit everybody, and not just the wealthy multinationals; otherwise, globalization simply becomes another word for the Americanization or Westernization of the world. Second, that while it is worth thinking about the usefulness of a set of global "ground zero" rules, it is also important to remember that the governance issues that take up the "talk time" of each country will be different. In Australia, for instance, much of the talk time is spent discussing the need to be globally competitive and the need to avoid foreign takeover versus the need for healthy competition within our country. In other countries, the talk time will involve completely different issues. Although several countries might grapple with the same corporate-governance issues, they will also be grappling with issues peculiar to their particular set of circumstances. To expect any country to look at these problems from the global perspective rather than from its own unique vantage point is simply expecting too much.

Notes

1. Joseph Kahn, "The Bear Draws Blood," *New York Times* (30 August 1998), Money & Business section.

2. Paul Dibb, David Hale, and Peter Prince, "The Strategic Implications of Asia's Economic Crisis," *Survival Summer 1998*. 40, no. 2 (1998): 21.

3. David Sanger, "Dissension Erupts at Talks on World Financial Crisis," *New York Times* (7 October 1998): A6.

4. Joseph Weber, "The Global 1000—The Year of the Deal," *Business Week*, European edition (13 July 1998).

5. Ibid.

6. Ibid.