

Impact of globalization the good the bad and the ugly economics essay



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The Kingdom of Belgium, commonly known as its shortened name Belgium, is a geographically small country located in the northern part of Europe. It spans approximately 30, 530 square kilometers and borders several countries including France, Germany, the Netherlands, and Luxembourg. The country is home to a population of over 10, 420, 000 people, which is the 79th highest population in the world (CIA World Factbook). Belgium's capital and largest city is the city of Brussels, with a population of over 1, 031, 200 residents (Dept. of State). There are three official languages recognized within Belgium including Dutch (60%), French (40%), and German (<1%). Belgium is predominately Catholic, but also has a mix of several other diverse religions that are recognized by the government (Dept. of State). They are ruled by a constitutional monarchy and parliamentary democracy. The King is technically the head of state, but is only a figurehead for ceremonial purposes.

Belgium has had a very interesting history having been controlled by several different rulers, and only being granted its own independence in 1830. After being under Austrian control for 80 years in the 18th century, Belgium was taken over by the French after the end of the French Revolution. The fall of Napoleon in 1815 caused Belgium to then be taken over by the Kingdom of the Netherlands (Smitha). Remaining under the Dutch power for another fifteen years, rebellions began to break out and eventually Belgium was declared an independent country in 1830 at the London Conference (Pearson Education). Belgium decided to establish a Constitutional monarchy and Parliamentary democracy, naming King Leopold as their first ruler (Interknowledge Corp). The country remained stable until 1914 when it was

invaded by Germany. This invasion and occupation of Belgium was the beginning of World War I, and was not resolved until 1918. Belgium was invaded again in 1940 by the Germans at the beginning of World War II. The Germans captured King Leopold III, and occupied the country until Belgium was liberated in 1944 by the Allied forces. Following the end of the war, Belgium established itself as one of the leading countries involved in international business in Europe.

After the invasions experienced in both World Wars, they supported establishing collective security agreements within Europe (Dept. of State). Belgium was one of the twelve founding members of the North Atlantic Treaty Organization, signing the agreement on April 4th, 1949. NATO was created as a political and military alliance to ensure the security and safety of its members, and Belgium remains a current member. In 1957 Belgium, along with the Netherlands and Luxembourg, came together to form the Benelux Union (Interknowledge Corp). They also were one the initial six members of the European Economic Community, along with the rest of the Benelux countries, France, Germany and Italy, which is now known as the European Union (EU). Brussels was named as the headquarters of NATO in 1967 and has also established itself as the meeting place of the EU in 2000 (NATO). Belgium was one of the first countries to adopt the Euro as their national currency on January 1, 1999 (Europa). While Belgium has maintained strong, unified relationships with other nations, it has experienced significant divisions within its borders.

Growth and Development

Belgium was one of the first countries in Europe to fully experience and benefit from the industrial revolution in the 19th century. Belgium was the first country in Europe to build railroads and utilize trains in the 1830's, building up an infrastructure to facilitate growth (Infrabel). This began creating a division between the two main regions in Belgium, the Francophone Wallonia region and Flanders region. Wallonia, a French speaking area, was becoming more industrially prosperous and was politically powerful. Flanders, a Dutch speaking area, was agriculturally based and did not gain the benefits seen by Wallonia from the industrial expansion. Following World War II, a shift in power became increasingly apparent. The Flemish began to see significant industrial growth as the Wallonia region saw a weakening in their steel and coal industries. The Flemish not only gained economic power but political power as well, making up 58% of the population (Dept. of State). The continuance of conflict between the linguistic groups caused the State to begin making reforms.

The first step of reforms came in 1963 when the language border was fixed, removing the need for a language consensus. (Deschouwer) This was advanced further with the Constitutional reform in 1970, which officially recognized the cultural communities and regions within Belgium. These regions included the Flemish, Walloon and Brussels region. Brussels, being a multi-lingual region, was simply left as a region and not recognized as a community. The reform also affected the division of the parliament houses. The two houses were each divided into two language groups, requiring an equal number of ministers from each language, excluding the Prime Minister

position (Deschouwer). The reforms put in place during this time set up the groundwork for the future federal state which would eventually develop.

In 1980, the Constitution was again reformed and created formal institutions for three communities; the French, Flemish, and German-speaking Communities, as well the Flemish and Walloon regions. The main differences between a community and a region deal with what they have powers over. A community is more focused on the power over the people, whereas regions retain power over territory (Deschouwer). The Flemish decided to consolidate their region and community institutions to create a single assembly, while the French/Walloon community did not (Deschouwer). In 1993 one of the biggest reforms to the Constitution was made officially making Belgium a federal state, with three regions including Flanders, Wallonia and Brussels. This means that the regions are not accountable on a federal level, which creates no continuity in daily life. " There are no national political parties, no national newspaper, no national TV channel, no common school curriculum or higher education" (Traynor). However, the Belgian Constitution does state that the opposing regions should have a sense of " federal loyalty" when dealing with conflicting viewpoints. The elections of the regional and community parliaments were transformed into direct elections, and the Senate was reformed to a Senate of Communities (Dept. of State). Finally, an old province was split into two parts- Flemish Brabant and Walloon Brabant. This separation created ten total provinces within Belgium, five belonging to each side, and not including Brussels which was not considered a province (Deschouwer). The country continues to experience a divide between the areas and has led to government unrest in the last several years.

In 2007, the Prime Minister resigned after being unable to put together an acceptable government after six months of deliberation between the two major parties (Traynor). Following his resignation, the new Prime Minister Leterme would take charge, but he too would resign after only 9 months (Pearson Education). A Flemish Prime Minister was then put in place in 2008, and held the position attempting to bring the two cultures to an agreement until November 2009 when Leterme retook his position. Since then, the government has once again fallen apart and is still trying to reconcile the differences between the Flemish and Walloons in order to keep the country together (UC Berkley).

Economic Model

Belgium has a free market economic system, supporting private enterprises to create wealth for its population. Being one of the first countries to advance the industrial revolution, the majority of its businesses are in the industrial as well as commercial services industries (CIA World Factbook). The three major industry sizes vary considerably, with 73% people in services, 25% in the industry sector, and only 2% involved in agriculture (Dept. of State). Belgium is not a natural source of raw materials, which caused them to import \$261. 3 billion dollars of goods in 2009, the fifteenth highest in the world. The Belgians are also one of the leading exporting countries in the world with \$261. 1 billion in exports, also ranking 15th worldwide. The biggest exports are the finished goods created from the imported materials and include machinery, equipment, and chemicals (CIA World Factbook).

Belgium's economy has seen success from its well established infrastructure it built during the Industrial Revolution. They have also benefitted from their central location in Europe, and have capitalized on its membership in the European Union (Advameg, Inc.). Around 75% of Belgium's trade occurs with members of the European Union, with an overall GDP (PPP) of \$383 billion in 2009. This is a -2.7% decline in GDP growth from the previous year, mainly caused by the economic recession experienced worldwide (CIA World Factbook). Belgium went through a period between 2000-2008 when it was able to cut back on its expenditures and reduce public debt to 0.2% of GDP. This ended in 2009, however, after massive bank bailouts caused government spending to increase drastically, with a current public debt of 99% of its GDP (Dept. of State; CIA World Factbook). Belgium ranks 30th on the Economic Freedom index with a score of 70.1, a decrease of two points from 2009. They scored high in trade freedom with a score of 87.5, due to having the same trade policies of the members of the EU. They do, however, have non-tariff barriers which hinders its trade with countries who are not members of the EU. Belgium scores low on its fiscal freedom with a 42.2 rating caused by its high income tax rates for individuals and fairly high corporate tax rates. Investment freedom is also high at 80.0 points because Belgium is very open to joint ventures from foreign investors, unless it is a professional industry such as doctors and lawyers which are then not treated as domestic parties (Economist World in Figures).

Cultural Description based on Hofstede

Geert Hofstede rated Belgium based on five different cultural dimensions including Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS),

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Uncertainty Avoidance Index (UAI), and Long-Term Orientation (LTO) (Hofstede, 2010). Compared to other European countries, Belgium ranks very high with the Uncertainty Avoidance cultural dimension especially, meaning they have a low acceptance rate for uncertain situations. The Belgian government sets strict laws and regulations in order to stay focused on things they can control and keep out of unexpected situations. The country is not easily influenced by changes and does not seek risky undertakings. The Power Distance Index is also above the other European country average proving they have a slightly higher level of inequality within their societal structure. As a result, power among individuals, institutions, and organizations is distributed unevenly. Members in society are not cohesively integrated into groups as a result of the Individualism dimension being higher than the average of other European countries. There are looser ties among Belgian communities, so individuals are expected to complete tasks independently and provide for themselves rather than helping others. The Masculinity cultural dimension is lower than the average, representing that there is not as much of a gap between women and men's values. Belgium's Long-Term Orientation dimension has an even mix of tradition and frugality.

Expected Accounting Values based on Gray

Gray presents an extension of Hofstede's cultural dimensions by identifying four different accounting value dimensions that encompass a country's accounting culture. These dimensions include professionalism versus statutory control, uniformity versus conformity, conservatism versus optimism, and secrecy versus transparency. Culture factors have a huge

impact on the way financial reporting and accounting systems are developed and used and the values of accounting.

The first value, professionalism versus statutory control, promotes individual professional judgment and self-discipline contrasted by compliance with statutory regulations and legalities. Uniformity versus conformity represents consistency between companies compared to unique flexibilities within individual firms. Conservatism suggests a careful, vigilant look at accounting measurements rather than optimism, a confident, risky approach of viewing a company's financial information. Lastly, secrecy versus transparency indicates a tightly held and secure information structure as opposed to accessible, publicly available accounting information. Belgium would classify their values as more statutory controlled, uniform, optimistic, and transparent. These values would become the base for the accounting system requirements and accounting approaches for financial company information (Wiley).

Indexes

Corruption Perception Index

Belgium is judged on various standards and measures then given a rating based on discovered results from studies conducted. One of these measures is the Corruption Perception Index (CPI). According to Transparency International, Belgium received 7.1 out of ten and was ranked 22 out of a total of 178 countries, illustrating a predominantly corruption-free environment. They were also ranked thirteenth overall compared to other European Union and Western European countries that were evaluated. The

CPI is a measure of how serious corruption is and has an impactful effect on the level of progress the country is able to achieve (Transparency International). One possible reason Belgium ranked so high on the CPI scale could be because they have high transparency and accountability, which are helpful resolutions to minimize global risks and reduce the corruption problem. This leads to a high level of integrity among the public sector and increased trust levels among public citizens in society.

Opacity Index

Another measure Belgium uses to analyze their progress is termed the Opacity Index. This Index examines five ‘negative social capital’ components which spell CLEAR. These components include Corruption, Legal system inadequacies, economic Enforcement policies, Accounting standards and corporate governance, and Regulation. Opacity is defined as the effectiveness of a country’s economic and financial institutions and its entire risk. According to Kurtzman and Yago, by examining the Opacity Index businesses, companies, and governments can make reasonable decisions concerning future costs, uncertain risks, possible investments, and changes to their structure.

A low opacity level signifies that the costs of doing business there will reduce, therefore leading to long-term advantages. A low opacity level also would indicate added competition for increased business opportunities within the country. In 2009, Belgium attained an Opacity score of 19 and was ranked eleventh in the 2009 update, which indicates that the country has a great potential for business prospects. The Opacity Index is useful as a comparative tool across countries as well since it is fact-based rather than <https://assignbuster.com/impact-of-globalization-the-good-the-bad-and-the-ugly-economics-essay/>

subjective, which makes it a relevant measure (Kurtzman and Yago). This ability to contrast between countries helps with business and government decisions regarding investment decisions, effective policies, and transparent and competitive organizations.

Economic Freedom Index

The Economic Freedom Index is a good indicator of how well the economy is doing in relation to a variety of freedoms. Overall, Belgium ranked thirtieth worldwide with an economic freedom score of 70.1 and sixteenth in their region out of forty three countries examined in 2010. Due to the economic recession, scores have dropped in general, however the Belgian government has always been committed to economic freedom and recently helped by offering a supportive stimulus package. Business and trade freedoms are the highest based on the ease of starting and running a business and low tariff rate. The investment, property rights, monetary, freedom from corruption, and financial freedoms are the next highest level while the fiscal, government spending, and labor spending are lower (The Heritage Foundation).

Global Services Location Index

A. T. Kearney implemented a Global Services Location Index (GSLI) to provide valuable information to business leaders looking to offshore some of their issues. Offshoring activities are allocated based on different categories such as financial appeal, people skills and availability, and business environment (A. T. Kearney). Belgium, although not top-rated, would be a good location to implement offshored services based on its financial and

business attractiveness and because its strengths outweigh its weaknesses even during a turbulent time period.

Accounting Environment

Tax

Belgium uses a progressive tax rate system for personal income tax, with a tax year beginning on January 1 and ending on December 31. For the assessment year of 2010 the lowest tax rate is 25% and the highest tax rate is 50% for all income over 34,330 euros. Monthly withholding is mandatory in Belgium even for self-employed individuals. Belgium allows for many common tax deductions, such as dependent deductions for children.

Municipal taxes are also added to personal income taxes. Municipal taxes range for 0 to 9.5% of the tax payer's income tax payable (www. taxrates. cc, 2010). Belgium's personal income tax is one of the highest in the European Union. Including social security an individual can end up paying 57.5% of their income to the Belgium government each year. The average income tax in the Europe Union is 44.5% (expatica, 2009). Individuals who are not Belgium citizens but are living in Belgium are only taxed on income earned from a Belgium source. This is in an effort to avoid double taxation and to make Belgium more attractive to foreigners (www. taxrates. cc, 2010).

The corporate tax rate in Belgium is 33.99%. However, World Bank estimates that a 57% tax of profits actually applies when all taxes, such as property and fuel taxes, are added together (World Bank, 2010). Smaller companies can take advantage of a progressive tax rate structure that starts

at 24.98%. There are several requirements a business must meet to qualify for this progressive rate structure. The two major requirements are that taxable income cannot exceed 322,500 euros and no more than 50% of the company can be owned by another company (www.taxrates.cc, 2010). For the most part the tax base of corporations is calculated using accrual methods. This is the accrual of worldwide income, but typically income from a foreign subsidiary is exempt from taxes. This is because of double taxation treaties that Belgium has signed with many countries to encourage other countries to trade and do business with Belgium (PWC).

Belgium refers to their sales tax as a value added tax (VAT). The value added tax is 21% of the price on the majority of purchased goods. Lower rates of 12%, 6%, and 0% apply to a certain items (www.taxrates.cc, 2010). Food and transportation are examples of items that are taxed at a lower rate because they are more of a necessity than a want. The collection of the value added tax is ultimately the business's responsibility (expatica, 2009).

Financial

In 2005 Belgium made the transition from Belgian GAAP to the International Financial Reporting Standards (IFRS). The European Union requires all companies' consolidated financial statements listed in the market to be in convergence with IFRS as adopted by the EU, effective January 2005. In addition to this countries of the EU must allow the use of IFRS for unlisted companies and for unconsolidated financial statements of parent companies. Other companies were permitted to put off the adoption of IFRS until 2007, such as a company who is listed in the markets of the United States and uses US GAAP (Deloitte, 2010).

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The IFRS are a set of standards created by the International Accounting Standards Board (IASB). The IASB's goal was to create a set of standards that would unify financial accounting across the world. The EU's decision to switch to implement IFRS was a large step in aligning capital markets across the world. This means that 7, 000 European companies are now in compliance with IFRS. The implementation of IFRS is supposed to make capital cheaper to EU companies because it will now be easier to compare financial statements across borders. The use of common standards should make the EU market more globally transparent and competitive. By adopting IFRS instead of US GAAP the EU has put the United States now in a position to also lean towards convergence with IFRS.

The EU's attempt to converge to IFRS has not been the smoothest, some obstacles have risen. The EU has only adopted the EU's version of IFRS. The EU has not converged with IFRS completely as the IASB devised the standards. This version only mandates the IFRS standards that the EU has approved. A lot of the controversy over IFRS came because of the increased use of fair values instead of historical values. This caused the EU to remove parts of IAS 39 which focused on fair valuing financial instruments on the balance sheet. This will probably slow the convergence between US GAAP and IFRS, ultimately slowing down a true global set of accounting standards (Larson, 2009). Also, the EU member companies still rely heavily on their national GAAP for items other than consolidated financial statements. Some sort of national GAAP is usually still used by companies in areas where IFRS is not mandatory, such as for unconsolidated financial statements or unlisted companies. Also, National GAAP's, such as the Belgian GAAP, are still used as

a tax base for EU listed companies because they are historical in nature (Peyret, 2010). The EU is dedicated to the transition towards IFRS and away from national GAAP's but the convergence is an ongoing process.

Legal Environment

Belgium is a federal state with a civil law system. Another important aspect of Belgian law is the fact that the country is a member of the European Union. The law and the design of the government are largely influenced by French law. The legislative branch is comprised of a parliament which includes the Chamber and the Senate. The King of Belgium is considered the head of state and the executive branch, but almost all government power is vested in the prime minister and the parliament.

Belgium's judicial branch is independent of the government and consists of the courts. There are regular courts, including private and criminal law courts, and an administrative court. The court system is an effective means for resolving commercial disputes or protecting property rights (Legal Environment, American University).

The legal environment in Belgium promotes development of business and business prosperity. Belgium is characterized as a favorable environment in terms of private equity fund structure, company tax rates for small and medium enterprises, fiscal research and development incentives, bankruptcy and insolvency laws, and as an entrepreneurial environment. It is an considered an unfavorable environment in terms of merger regulation, pension funds, stock option taxation, and for insurance companies

(Benchmarking European Tax and Legal Environments, European Private Equity and Venture Capital Association).

Property Rights

Property rights are well protected in Belgium. The country scored an 80 on the Property Rights Index, a subcomponent of the Index of Economic Freedom. The Property Rights Index measures the degree to which a country's laws protect private property rights and how severely the government enforces property rights laws (Global Property Guide). It scores a country between 0 and 100 and the higher the score, the more property rights are protected. Belgium ranks similarly compared to its other Western European neighbors.

Impact of Globalization: The Good, the Bad, and the Ugly

Globalization has affected every country around the globe. Belgium has been influenced by other countries in several ways. According to the 2010 KOF Index of Globalization, Belgium is the most globalized country. It has held this spot for the past four years. This index is calculated by the Swiss EPFZ Institute on 208 countries. It measures the three main dimensions of globalization: economic, social, and political. It also collects data on actual economic flows, economic restrictions, data on information flows, data on personal contact, and data on cultural proximity. The KOF Index of Globalization shows that globalization is still on the rise, driven by increased economic and political globalization, while social globalization has stagnated (Belgium Still Number One, Flanders Investment and Trade).

Globalization already significantly affects Belgian politics, society, and the economy. Specifically, the country's economic development, its amount of offshoring, its crime rates, and its use of natural resources all show how Belgium has been influenced by globalization.

Economic Development

Belgium is one of the developed countries of Western Europe. Due to its small size and lack of resources, Belgium has depended on trade with other countries to develop its economy. The country's reliance on international trade has helped it to become one of the world's most open economies. Belgium allows the free exchange of goods, without tariffs or other limitations. One key sign of globalization of the Belgian economy is the fact that the country is part of the European Union. This continental body encourages the sharing of ideas and trade across Europe, enhancing globalization.

Offshoring

For Belgium, offshoring is an important issue because of the very high degree of openness of the economy, which favors the shift of activities abroad (The Impact of Offshoring on Employment in Belgium, Michel).

Offshoring has led to job losses in manufacturing, specifically in the textile industry, and automobile production.

To measure the effect of offshoring on Belgium researchers use trade-based data. Since no individual firm data has been collected from Belgium, researchers must use trade-based data. The best indirect measures of offshoring are trade flows and the share of imported intermediate inputs in

output. The trends gathered from the data have showed a strong increase in outward and inward processing trade flows. They have also showed a moderate rise in imported intermediate inputs in output. This confirms the increase of offshoring in Belgium.

Studies show that Belgian offshoring is strongest in manufacturing industries. Even though manufacturing offshoring is most prominent, offshoring of services is growing. There is a significantly higher growth rate of the share of imported intermediate inputs in output for service industries. This growth demonstrates the increasing importance of the offshoring of service functions. The services offshored are mostly business services, such as call centers and accounting. While offshoring in manufacturing is currently an issue for the country, service offshoring will most likely become an issue in the future.

Crime

Belgium is characterized by a relatively low crime rate. It is considered a safe country for Western European standards. Belgium is mostly free of violent crime, but low-level street crime is quite common. Most of this low-level crime includes thefts and muggings. Counterfeit and pirated goods are also frequently available for purchase.

Recently, Belgium has emerged as a center of illicit drug trade and activity. The country has increasingly been producing synthetic drugs and cannabis. Belgium has also become a producer of chemicals for South American cocaine manufacturers. It is the transit point for U. S.-bound ecstasy, as well as the transit point for cocaine, heroin, hashish, and marijuana coming into

Western Europe (CIA World Factbook). This may be due to the fact that Belgium has one of the world's most open economies with very limited trade restrictions. Drug use has also become an issue in Belgium. Ecstasy and cannabis are widely used in the country.

Money laundering is another crime that has plagued Belgium. Despite a strengthening of legislation, the country remains vulnerable to money laundering (CIA World Factbook). This money laundering is mostly related to narcotics, automobiles, alcohol, and tobacco. To combat money laundering and terrorism financing, Belgium has established the Belgian Financial Information Processing Unit. This financial intelligence unit collects financial information that is unusual or suspicious and analyzes whether or not the transactions are money laundering. This body does not enforce the law, it only analyzes information and if money laundering is found it passes it on to law forces.

Natural Resource Depletion

Natural resource depletion is of great concern to Belgium. Because the country contains few natural resources it must import significant amounts of raw materials for industry. This makes Belgium's economy susceptible to the volatility of world markets. Growing natural resource scarcity and rising raw material costs have prompted the push for sustainable use of resources in the country. Belgium is at the fore-front of this cause, promoting a cradle-to-cradle approach to the management of natural resources and environmentally friendly policy-making. Belgium has created the Belgian Federal Council for Sustainable Development to help the country with this initiative. The FRDO-CFDD, as it is abbreviated in Dutch, is an advisory body <https://assignbuster.com/impact-of-globalization-the-good-the-bad-and-the-ugly-economics-essay/>

that advises the Belgian federal authorities about the federal policy on sustainable development (Federal Council for Sustainable Development, Belgian Federal Science Policy Office). The purpose of Belgium investing in this sort of initiative is to reduce the size of Belgium's and the whole continent of Europe's ecological footprint.

The Role and Impact of Non-Governmental Organizations and Intergovernmental Organizations

Non-Governmental Organizations (NGOs) and Intergovernmental Organizations (INGOs), are parties comprised of national or international members who are dedicated to achieving a specified set of goals. NGOs such as the World Bank are, “ private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development” (World Bank). In Belgium, the intended effect of NGOs is to provide counteraction to the role and actions taken by the Belgian government (Belgium. be). The Belgian government believes that by NGOs taking this position, NGOs help ensure that the democratic process is maintained.

Belgium is a member of several International Intergovernmental Organizations (IINGOs) including: the United Nations (UN), the World Trade Organization (WTO), the International Monetary Fund (IMF), and the European Union (EU). As a member of these IINGOs, Belgium implicitly agrees to adhere to the rules and principles that govern each IINGO. Membership to these powerful International Intergovernmental Organizations has a significant impact on the economic, financial, social, and political

environment of Belgium. NGOs and INGOs have played a significant role in Belgium's past and current national and international politics.

United Nations

According to website of the Belgian President, Belgium, a founding member of the United Nations (UN), has always viewed the UN as an effective and valuable instrument for multilateralism in order to respond to the increasing number of global challenges (Belgian Presidency). Having been both a pro-active member and one