Suzuki, Katshiko. "Choice Between International Capital and Labor Mobility of Diversified Economies." *Journal of International Economics* (November 1989): 347–361.
United Nations. *Statistical Yearbook*. New York: United Nations, 2004.
United Nations Conference on Trade and Development. Country Fact Sheets. 2004.
———. World Trade Report. 2004.
US Department of Commerce. *Survey of Current Business*. Washington, DC: Government Printing Office, 2004.
U.S.–Vietnam Trade Council. "Vietnam Trade Agreement: Summary of Key Provisions." July 13, 2005, www.usvtc.org/BTA/BTA_Rueters.htm.
Vanguard Group. *Vanguard Global Equity Fund: Annual Report, September 30, 2011*. Valley Forge, PA: Vanguard Group. www.vanguard.com/funds/reports/q1290.pdf.
World Bank. *World Development Report, 2004*. New York: Oxford University Press, 2004.
World Trade Organization, *World Trade Report 2004*, Appendix, Table 1A.1.
World, Trade Organization. *World Trade Organization International Trade Statistics 2012*. [S.l.]: Bernan, 2012.
World Trade Organization. "Statistical Database." 2012. www.wto.org.

GLOBALIZATION AT THE CROSSROADS: IS SECURITIZATION THE ENEMY?

In the wake of the "Yes Era" (i.e., the start of the recent global recession) there were many comments in the financial press that probable cause for the economic calamity lay at the feet of bankers who created securitization products which package mortgages together for sale to investors. Securitization comes in many forms but typically involves the packaging of residential or commercial mortgages, or other loans such as automobiles and student loans, into bonds sold to the public. As many securitized pools of residential and commercial mortgages contained loans of dubious quality, securitization itself was seen as the enemy of continued global progress. If economies such as Iceland, Ireland, and Spain could be placed on the brink of economic calamity from purchasing highly risky pools of mortgages, something is awry in the securitization model itself; or at least so it seems. Residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS) came crashing down in 2009 from the heights just a few years before. Lost in the blame game was the fact that covered bonds in Europe, which represent pools of bank approved mortgages held on the balance sheets of financial institutions, had not experienced a default in over 200 years. A basic difference between the covered bond model (known as pfandbriefe in Germany) and the stateside version of mortgage backed securities was that the government legislation in Europe allows for the banks to remove poorly performing assets from the covered bond pools, while such laws do not yet exist in the RMBS and CMBS models. The securitization of mortgage and other debt allows for banks to free up their balance sheets so that they can continue to lend. This added liquidity in the market has the effect of lowering the cost of lending for everyone. The question for debate is whether securitization is the enemy or if the benefits outweigh the costs.

Questions for Discussion

1. *Research the current state of the securitization industry. Has the industry made a comeback?*
2. *Based on your research, is the securitization model inherently flawed?*
3. *Why was mortgage securitization seen as the culprit in the recent financial crisis?*
4. *What role does regulation play in both the blame game and the recovery of the market?*

Case Study 2.1

Electronics International Ltd.

Electronics International Ltd. is a large consumer electronics manufacturer based in Southampton, England. Its product line consists of compact disk players, DVD players, home entertainment systems, and so on. Annual sales in 2012 were $186 million, 44 percent of which came from overseas sales. Most of the company's exports go to developing countries in Asia and Africa, with a small percentage of its products going to Turkey and Greece. Its most important export market is Zempa, a relatively prosperous developing country in the western part of Africa. Exports to Zempa total nearly 26 percent of all export revenues and have been showing an upward trend for the past six years.

Total sales to Zempa in 2012 were $140 million, up from $120 million in 2011 and $110 million in 2010. The company controls approximately 20 percent of the audio products market in Zempa, with the rest taken up by other competitors, all of whom are overseas corporations. Zempa has no audio products manufacturing industry, so all domestic requirements are met through imports. Electronics International is the third biggest player in the Zempa market, with the top two slots occupied by a German company and a Japanese company, respectively. Electronics International's products are well-established and enjoy considerable customer loyalty.

Recently, the government of Zempa has become increasingly concerned about the relatively backward state of its manufacturing industry and wants to rapidly industrialize the economy by attracting overseas investment in key sectors. One of the important priorities for the Zempan government in this connection is the consumer electronics industry. As part of its policy to develop the local economy by

(continued)

Case Study 2.1 *(continued)*

stimulating domestic manufacturing activity, the Zempan government queries each of the major exporters of consumer electronics products about setting up domestic production facilities in Zempa. The managing director of Electronics International receives a letter from the Zempa government, inviting the company to set up a manufacturing facility in Zempa and promising considerable official assistance should the company decide to do so.

Electronics International is asked to evaluate this offer and to reply within three months. The government also acknowledges that the other leading suppliers are also considering setting up local manufacturing establishments in Zempa.

The idea of setting up a manufacturing operation in Zempa does not appeal initially to the managing director. The company is doing well in Zempa as an exporter: sales have been increasing each year. There have been no difficulties in shipping its products; most of the goods are transported by sea and costs are acceptable. True, there are some problems with the local customs authorities, but they are not insurmountable. The distributors are good, reliable people who are pushing sales hard and meeting their contractual obligations to the company without any major problems. The Zempan government's regulations regarding remittance of payments for imports/exports are tedious and at times a little frustrating, but with the help of the company's local agents, most of the issues regarding repatriation of exchange proceeds are resolved in reasonable time. Therefore, why should the company think of setting up manufacturing operations in Zempa? The infrastructure for industry in Zempa is relatively undeveloped. The electricity supply is especially unreliable. There is little trained manpower, and the production of electronic products requires workers who are adept at carrying out the delicate assembling tasks. On the verge of dictating a letter thanking the Zempan government for its invitation to set up a factory but conveying the company's decision to stay on only as an exporter, the managing director decides to consult Bill McLowan, the strategic planning director at Electronics International. A couple of days later, McLowan presents a seven-page executive memo that differs from the thoughts of the managing director. The memo raises five main points:

1. Zempa is a valuable market for Electronics International, and as the economy of the country develops, the market size is likely to continue to grow rapidly. What is therefore needed is an increase not only in sales volume, but also an increase in market share. The memo points out that although the sales of Electronics International's products have risen steadily over the past six years, its market share has stagnated while those of its main competitors have increased.

2. The Zempan government has not only invited Electronics International to set up manufacturing facilities, but also solicited investments from its two major competitors. If both competitors accept the invitation and set up local manufacturing operations, they could outprice Electronics International from the Zempa market because the costs of local production are bound to be lower, given the lower wage rates and other input costs.
3. Zempa is under increasing domestic and external economic pressure. There is considerable inflation, primarily because of a substantial federal budget deficit (the government has not been able to raise required levels of revenues). Although the external balance position has been comfortable in the past five years because of firm commodity prices (commodities are the main exports of Zempa, generating 95 percent of export revenues), indicators of a weakening are already evident. In the event of a balance-of-payments crisis, the government is likely to limit imports, and one of the first items to be put on the banned list would be consumer electronics, because they would be deemed nonessential in the face of competing demands from such imports as defense equipment.
4. Although there are some impediments to the establishment of manufacturing operations, at this stage the government has assured the company of all assistance. If Electronics International goes in now and the other competitors do not, it would gain considerable leverage with the home government, which could be used to attack the dominance of the competition.
5. There are certain risks—the local currency might depreciate and the lack of training of local workers and the state of local infrastructural facilities might impair the efficiency of the plant. There may be other constraints imposed later on the manufacturing operation. Given the emerging scenario, however, these risks are worth taking, and the company should at least in principle accept the invitation from the government of Zempa and prepare for further negotiations.

Given the difference of opinion presented by McLowan, the managing director had quite a dilemma to resolve.

Discussion Questions

1. Assume that you are the managing director in this case. What strategy should Electronics International adopt in this situation? Should the company continue exporting or make direct investment?
2. Are there any other alternatives open for Electronics International?