

Chapter 9

Review Questions

- 1. What is the State? Why is it important for the aerospace industry? Explain with examples.**

The State comprises a set of institutions, for example, legislative, executive, and judicial, having the authority to make decisions in matters of government within a specific geographical territory. It has a monopoly over the legitimate use of force in that territory to assure its ability to govern. Hopefully, students will go a bit further by looking at the State from a business viewpoint e.g. by including reference to its functions as a protector of private property, taxpayer and spender, regulator, customer, supplier of goods and services, competitor etc.

Students could continue by indicating what is produced by the aerospace industry—high-tech products associated with aviation and space flights such as aircraft, aero engines, space craft, and missiles (see, for example, the US aerospace association <https://www.aia-aerospace.org/about-aia/> and in the UK <https://www.adsgroup.org.uk>). Students could also identify the major players in the industry e.g. Boeing, Airbus, Lockheed Martin, General Dynamics, General Electric, BAE, Rolls Royce, Leonardo (see: <https://www.flightglobal.com/file/?contentId=13060>).

Aerospace, like other industries, is subject to the authority of state institutions in the territories where it operates. This means that the industry has to conform to the legal and regulatory environment determined by these institutions. Particularly important for the aerospace industry is the role of the State as customer. The State is usually the major purchaser of military equipment so policies on defence, and the budgets devoted to military purchases, can have a major effect on company sales revenues and profits. The State can also be a major provider of finance for research (see p. 312). This means that the State is relieving aerospace firms of risk and uncertainty associated with R&D. The industry is also subject to regulation relating to safety, national security, the environment, and to exports and imports. Regulations may be set globally and by entities such as the EU, or at a country level (see: <https://www.easa.europa.eu/regulations>; https://www.faa.gov/regulations_policies/faq_regulations/; and <http://globaledge.msu.edu/industries/aerospace-and-defense/regulatory-agencies>). The aerospace industry is also important for States, as companies employ large numbers of people and are significant strategically for economies; for an example of the political/social implications here, the case of Airbus is illustrative of the issues involved: <https://www.theguardian.com/business/2017/oct/17/airbus-and-bombardier-to-partner-in-aircraft-programme>.

2. Compare and contrast the characteristics of liberal democratic and communist states. Discuss which of these types of state would be more attractive for a Western MNC.

Liberal democratic characteristics: free elections; choice of political parties for the electorate; governments based on majority rule; state institutions constrained by checks and balances; ability of the electorate to vote governments out of office; permanent, skilled and impartial civil service; personal freedoms e.g. freedom of expression, the right of assembly. It would be useful for students to make the point that most liberal democracies operate with mixed economies where property rights are guaranteed i.e. citizens and businesses have the right to own, buy, and sell assets.

Communist state characteristics: large swathes of the production of goods and is controlled by the State. State institutions such as the legislative, executive, and judicial branches are under the control of the communist party. The media and trade unions are also normally controlled by the communist party. Personal freedoms are not valued as highly as they are in liberal democracies.

Western MNCs are attracted to environments that are most conducive to them achieving their objectives of profits and growth. They would favour states that allow them to use their assets to pursue policies that best facilitate the production and sale of goods and services. Liberal democracies tend to be attractive to MNCs for these reasons and the evidence suggests that they tend to be better for business and economic growth (see pp. 297–8). Students should also be aware that there are differing types of liberal democratic system. There is no guarantee of business-friendly policies in communist states. For example, the control of the communist party over the economy and state institutions may impinge on Western MNCs searching for opportunities to increase sales of goods and services, in order to make a profit e.g. the issues faced by Google in China (see: <https://www.bbc.co.uk/news/technology-45041671>). Students could also consider the disputes between the United States and China over intellectual property rights (see <https://theconversation.com/why-china-is-a-leader-in-intellectual-property-and-what-the-us-has-to-do-with-it-93950>).

Communist countries such as North Korea and Cuba are antagonistic towards Western MNCs and are no-go areas for them, although Cuba has become more open to tourism, and its relationship and openness to the United States has become less predictable, with President Trump re-tightening restrictions which had been relaxed by President Obama. Students should note, however, that many western MNC's operate in China, and that communist countries, including Vietnam now are firmly integrated into the global economy and global supply chains, as evidenced by the large plants which Intel and Foxconn, for example, have in the country.

3. To what extent do you agree that globalization has undermined the power of the nation state? Give evidence to support your arguments.

Students could start off by outlining what is meant by globalization, if need be, by referring back to Chapter 1. They can find the arguments used by those contending that

globalization is undermining the nation state on pp. 307–8. Arguments against can be found in works by Dicken (2015), Hirst and Thompson (2005), and Rodrik (2012a and b); they do not see the emergence of a single global economy. Firstly, they point to the importance of major trading blocs, seeing global trade mainly occurring between the major blocs of NAFTA, the EU, Japan, and China. For Rodrik, the nation-state remains the most powerful social, cultural, and political entity with the most powerful having the ability to pursue independence in policy-making exercising much influence on agents of globalization such as the IMF, World Bank, and the WTO. The argument here is that globalization can wax and wane, and that there remain barriers to globalization such as tariffs, quotas, controls on migration, cultural barriers, and distance. In addition, most MNCs are seen as being not truly global but as based in one country, and look to the authorities in that country to promote and protect their interest abroad.

(See, for an overview of the debate

<https://studysites.uk.sagepub.com/dicken6/sociolonline.htm> and for a critique of their position:

<http://bus.lsbu.ac.uk/cibs/sites/bus.lsbu.ac.uk.bus.cibs/files/1997b%20AAJ%20Global%20Hirst%2526Thomp%20review.pdf>).

Students should look for evidence to test the contentions of each side; they can also reflect on the continuing salience of nationalism, protectionism and ‘anti-globalisation’ sentiment which has been important in the election of Donald Trump and the Brexit referendum, for example, and the issues raised in this regard in the Case Study.

4. The Economist Intelligence Unit (EIU) produces an Index of Democracy (<http://www.eiu.com/topic/democracy-index>) that charts the progress of democracy in the world. Its 2016 Report stated that the year had seen the ‘Revenge of the deplorables’ and also had seen a ‘democratic recession’.

- a) What is indicated by the term ‘Revenge of the deplorables’? Do you agree with the description?
- b) Identify the principal reasons for the ‘democratic recession’.
- c) The 2016 Report saw the USA downgraded from ‘full democracy’ to ‘flawed democracy’. Why was this?
- d) What, if any, are the implications of the standstill in democracy for business?

Note—a copy of the 2016 Index is available at <http://felipesahagun.es/wp-content/uploads/2017/01/Democracy-Index-2016.pdf>

- a) It would be useful for students to firstly indicate the criteria used by the EIU to assess the degree of democracy in countries. The specific criteria issued by the EIU are: electoral process and pluralism; civil liberties; functioning of government; political participation; political culture. Students could explain the meaning of the criteria.

The ‘Revenge of the Deplorables’, as the report (p. 1) says, refers to the ‘popular revolt in 2016 against political elites who are perceived by many to be out of touch and failing to represent the interests of ordinary people’, with the ‘deplorables’ label coming from Hillary Clinton’s use of the term to describe supporters of Donald Trump (see Clinton’s quote in the report). A key issue for students to note and discuss is, as the report says, the question of whether the ‘shock-waves’ caused by the election of Trump, and also the result of the Brexit referendum represent ‘A triumph of democracy or a threat to it?’ (p. 1). Here they should identify the ‘threat’ side of the argument by relating to concerns in those elections over the role of fake news (as covered elsewhere in the Chapter) and ‘anti-democratic’ sentiments, including xenophobia, racism etc. On the ‘triumph’ side they should note the derogatory bundling together of voters as ‘deplorables’ if they expressed views deemed unacceptable to the ‘political class’, and the way in which both results, and the rise of ‘populism’, can also be interpreted as an expression of the democratic popular will of many who felt ‘left behind’ by globalisation. Without this being an exercise in semantics, then, students can discuss what was implied by Clinton’s use of the ‘deplorables’ label, and whether in 2016 (and later) we have indeed seen their ‘revenge’.

- b)** Students should note that the ‘decline’ was not universal—some countries improved their score- but that the overall trend was clearly a decline across five global regions. Declining trust in politicians and officials seems to be a major cause, a long-term trend which has been able to be tapped by populist politicians. (Note of caution: the term ‘populist’ to identify these politicians/ movements is itself often used in derogatory fashion, when in fact, of course, democratic governments should reflect popular opinion). Ironically (see c), below), as trust in political institutions is a factor which impacts on the Index score, this has led to a relegation of the USA’s status in the Index. Other reasons for the ‘democratic recession’ are varied and long term (see the discussion which starts at p. 17 of the report), including on-going disenchantment from the economic recession of 2009, the collapse of traditional manufacturing and communities, the decline of established political parties etc.
- c)** As noted above, the report mentions specifically (p. 13–16) the declining trust in the USA of politicians and political institutions. The long-term trends identified in the report also, of course, relate to the USA.
- d)** Here, students should further reflect on the issues introduced in question 2), above, are democracies better for business? Students should identify from the report the various types of system- full democracy; flawed democracy; hybrid regime, and authoritarian, and consider the environment for business in each. Is it any more difficult to do business in a previously ‘full’, but now ‘flawed’ democracy? Students could compare a country’s score in the Democracy Index with ‘Ease of Doing Business’ Indices, for example <http://www.doingbusiness.org/en/rankings> or <http://www.doingbusiness.org/en/rankings> to compare the openness to business of countries with the type of regime. Overall, the complexity of the picture given by the Index should be noted; ‘flawed’ or ‘illiberal’ democracies (see p. 296–7 of the chapter) may be highly encouraging for business, and many hybrid (e.g. Kenya) and authoritarian (e.g. Vietnam) actively encourage inward investment.