



United Nations Global Compact

Berkeley Model
United Nations



LXIII
SIXTY-THIRD SESSION

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Dear Delegates,

Hello and welcome to the United Nations Global Compact! My name is Kevin Kai, and I will be your Head Chair for the Berkeley Model United Nations 63rd Session. We will be debating business ethics and globalization this weekend. Because we are a more specialized committee, I expect a higher-level debate compared the more general committees, and I am eager to see what kinds of solutions you have to the international issues that I pose. Expansion and regulation of businesses and prioritizing local business over globalized corporations are both business areas that have been reemerging hot topics. Therefore, please come prepared after researching business policy and current events.

Now, introducing your dais! My name is Kevin Kai, and I am currently a fourth-year student at UC Berkeley pursuing a simultaneous degree in Molecular/Cellular Biology and Business Administration. This will be my 7th year participating in Model United Nations, and my 4th year as a Chair. Aside from BMUN, I work as the Director of Marketing and Social Media for Berkeley Orthodontics, and I teach a class at Berkeley that helps undergraduate students land their first internship, job, etc. In my free time, I enjoy running marathons, playing tennis, and cooking. As for my future plans, I will be going to dental school; I am currently in the process of interviewing, but I will be committing to one soon. I am excited to meet everyone during conference, and I hope to have a productive committee!

Jonas Majewski is a second-year pursuing coursework in Business and Economics. Although he never did Model UN in high school, Jonas competed heavily in Speech & Debate. In his free time, he likes to watch soccer, watch too much TV, and explore the Bay Area with friends. Jonas spent the summer working as an intern in Ghirardelli Chocolate's finance department. He's fascinated by the difficult strategy decisions facing businesses around the globe. More importantly, he's incredibly excited to have you join us for Conference.

Sherry Guo is a freshman at Berkeley. She is currently undeclared, but she is possibly majoring in Public Health or Business with a minor in Classics and perhaps pursuing Med School afterwards (She is slightly confused at this moment!). She has been participating in Model United Nations since freshman year of high school and became the Secretary General of our Model UN Conference in high school, which was one of the largest and oldest conferences in the Toronto, Canada. She also loves to figure skate and watch Netflix in her free time. Since this is her first year in BMUN, she hopes to learn a lot from this experience and will enjoy meeting all of you!

Sincerely,

Kevin Kai

Head Chair of the United Nations Global Compact Committee
Berkeley Model United Nations, The 63rd Session



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http://picturejournals.com/wp-content/uploads/2012/06/inside_ikea-5.jpg



Strategic Expansion of Businesses

Topic Background

Burger King's pending purchase of Tim Hortons for about \$11 billion is causing upheaval in the business and political world. Many large corporations are strategically expanding their business to either increase their global presence or to decrease their costs. In Burger King's case, corporate inversion seems to be the primary incentive towards expansion ("Is Burger King's Move to Canada a Raw Deal for U.S. taxpayers?"). A tax inversion is a financial exercise practiced by some large corporations that allows the business to "lower its tax bills by acquiring a legal address abroad" (Mider). Although these companies do move their headquarters abroad in title, the infrastructure already established does not change. This means that the only difference is the amount of taxes that this company pays. Because the United States corporate income tax rate, 35%, is the highest in the world, many large corporations are looking to outsource their address and decrease their costs while expanding their business.

Besides tax inversions and merging with a preexisting company, businesses utilize a variety of methods to strategically expand their business. Because the minimum wage is higher in different areas of the world, it is more cost effective to outsource certain tasks and decrease the overall cost of a product. In this way, they can increase their profit and production without increasing the cost of labor. For example, Apple designs their product in the United States, but outsources the production of many components of their products to Asia. In fact, Chinese factory employees work long 11-hour shifts for only \$1.50 an hour (Mider). Even though there is an extra cost to ship the products back to the U.S. for distribution, the net benefit for Apple supersedes this additional cost.

However, it is not always in a company's best interest to expand internationally. There have been many large businesses that have failed during an attempt to have a global influence. For example, eBay attempted to move into China, but it was unable to have a large impact because there was already a similar ecommerce site, TaoBao ("10 Successful American Businesses That Have Failed Overseas"). As a result, it wasted money and infrastructure attempting to prematurely expand.

Expansion can increase the revenue of a corporation extensively. However, it can impact the global economy in a negative way. Economics boils down to one key equation: Gross



Domestic Product (GDP) = Consumer Spending + Investment Spending + Government Spending + (Exports – Imports) (Case 420). GDP is the total market value of a country's output. Governments use tax revenue on goods and services. If tax revenue is decreased, government spending will decrease. Government spending is essential for increasing aggregate demand (total demand for goods and services in the economy). This is because the government will spend money on a good or service, which increases the amount that consumers spend and businesses invest on goods and services. If less money is in circulation, then the economy can go into a recession.

Delegates will take on the role of global labor unions and global corporations to discuss the implications that expansion of business has on the economy at a domestic and international level, and the ethics of circumventing traditional business practices. The goal should be to submit a proposal (in the form of a resolution) in collaboration with other delegates to expand (or hinder expansion) into any area of the world.

Past International Involvement and Attempted Solutions

There is not a global entity to regulate the strategic expansion of businesses. As a result, corporations take advantage of the different domestic laws throughout the world. In the case of tax inversion, different governments are scrambling towards creating laws to limit the ability of companies to circumvent tax law. Consequently, many corporations are trying to utilize this strategy before the window of opportunity closes.

Although there are not many regulations on global expansion of companies, there are some United Nations actions that impede the growth of corporations indirectly. The Kyoto Protocol establishes an internationally binding limit for carbon emissions (“Kyoto Protocol”). By placing a cap on the amount of carbon output, businesses are not able to fully take advantage of the resources available to them. Any production results in the release of carbon emissions, and businesses have to quantify this amount. Therefore, they either have to decrease their production or choose a different location to expand into.

The International Labour Organization (ILO) also established universal labor laws and standards to ensure that no country's citizens are taken advantage of. In addition, the ILO acts as a supervising body for the establishment of these standards. Although these standards have not been universally adopted, different countries are changing their labor policy to make it more equitable and humane.



Case Study

IKEA

Today the world's most ubiquitous furniture company, IKEA was formed as a Swedish mail-order furniture business in 1943. The corporation opened its first brick-and-mortar location in 1958 and rapidly grew across the country to become a household name ("About Ikea"). IKEA developed a very strong identity in these early years, associating itself very directly with its Swedish roots through its products and brand images. It also pioneered the revolutionary store layout that has now become an integral symbol of the brand. Upon walking into an IKEA store, customers were guided through a series of showrooms designed to reflect the various styles of furniture available.

However, instead of purchasing these preassembled pieces, the company's products were instead only available for do-it-yourself assembly in the store warehouse. This new model significantly reduced production and transportation costs for IKEA, allowing it to offer highly competitive pricing to its customers. Furthermore, the company's designers built IKEA's products with international expansion in mind.

Bill Moggridge of the Cooper-Hewitt, National Design Museum, in New York describes the Swedish brand's ongoing design philosophy as "global functional minimalism." Localized styles and motifs were stringently avoided. Consequently, the company utilized economies of scale to keep costs down despite offering a large variety of products (Collins). IKEA's initial corporate strategy was fully transformed into a highly effective business plan.

The company opened its first stores in continental Europe in the 1970s and only accelerated its expansion in the coming decades. The company has been quick to adapt to global trends, producing many of its products in the developing countries as costs in the west have increased. In fact, international revenue now accounts for the vast majority of IKEA's revenues, with Germany and the US constituting its largest markets. Through it all, the company has maintained its core philosophy. Even with expansion into Asia over the last decade, IKEA has left 95% of its products unaltered. Last year, the company reported global revenues of nearly \$40 billion with continued growth on the horizon (Lessard). Thus, IKEA is truly a model corporation for strategic expansion.



Questions to Consider

1. What do you believe are the primary factors that influence a business to expand into a new location? Why do such locations exist?
2. Select one of the following options and write a proposal on how to expand using it as business model. Keep in mind legal boundaries, ethical considerations, and environmental impact.
 - a. Franchising and Licensing
 - b. Strategic Partnerships (Joint Ventures, segmenting a market, etc.)
 - c. Changing economies of scale
3. Pick any publically traded global company and describe the strategies that it uses to have a global presence. In the latter part of your paper, suggest one method to improve expansion of this business.
4. Overall, is there a net benefit to the environment that businesses expand into or is there a net detriment? Analyze your choice.
5. How important is branding in expansion? Do you believe it is necessary for a company to have a single identity in all areas of the world in order to be successful? Explain.



Regulating Globalization to improve Local Business

Topic Background

In the *Communist Manifesto*, Karl Marx warned us that local business would inevitably be eliminated due to the rise of globalized multinational corporations. Upon seeing the spread of McDonald's, Starbucks, etc., it is clear that these global businesses have substantial impact on both the economy and consumers.

With new worldwide operations, these businesses are edging out competition and forcing the local businesses out of circulation. Because of corporate social responsibility, the local population does have more opportunities for higher wages, improved goods and services, and improved healthcare (Ahiakpor). However, it is not clear whether the influence of these multinational corporations is monopolizing the developing nations and leaving little room for domestic economic growth. Furthermore, this rise of globalization is decreasing the productivity of local businesses and causing countries to rely on multinational corporations for income, food, housing, and more.

Delegates will be discussing the economic importance of regulating globalization in order to improve domestic economy. Globalization can act as a catalyst to bring more human resources and infrastructure to developing nations. However, it can also hinder a nation's own progress and render it a resource for the large multinational corporations.

Past International Involvement and Attempted Solutions

There is no world government to regulate all the facets of globalization. However, the larger problem is that few people want one. Although there are individual organizations that try to mitigate the impact of globalization, the current approach is haphazard and no constructive work has been done ("Globalization"). Delegates will be discussing the feasibility of creating an international body to regulate globalization. Originally, these growing companies created the United Nations Global Compact as a forum to discuss such issues and prevent the abuse of power. It acts as a system of checks and balances between labor unions, large corporations, and civil society organizations.

In addition, nations tend to want globalized companies to enter their area. Despite the possibility of losing economic influence, the government would rather have their citizens content with work compared to the opposite. In addition, multinational corporations bring positive



externalities along with their business (Habib-Mintz 39). Developing nations tend to have less established labor standards because the primary focus is to establish infrastructure and for the owners to turn a profit. Because Big Business already has an established brand, mission, and wealth, they also bring improved labor standards to the developing world (Habib-Mintz 47). The International Labour Organization works to establish these labor standards and keep them in place while a nation transitions into a more established economy (Habib-Mintz 47). The developing nations also hope that this new business will bring in a wealthier audience and increase their gross domestic product.

Globalization has not had positive impacts in all areas of the world. In Jamaica, globalization has increased the education level and brought in new streams of revenue. However, because of the increased education, there has been an increase in emigration (Harper). The educated men and women now leave the island and work where there is more pay. This causes stagnation in growth, social unrest, and unemployment (Harper). In addition, new diseases, plants and animals are introduced, which negatively impacts the health of Jamaican citizens. With new people and businesses entering, there has also been a loss of cultural identity (Harper).

Case Study

Sindicato Nacional de Trabajadores de la Educación (National Educational Workers' Union—SNTE)

In a country dominated by unions and monopolies, Mexico's SNTE is by far the largest. The organization represents 1.5 million teachers across the nation and retains enormous political clout (Archibald) It is also extremely controversial. Mexico's failing education system has been a significant drag on labor productivity and economic competitiveness. The country ranked 48th out of 65 countries in the 2009 PISA test (Garcia) Moreover, SNTE's leadership has come under enormous pressure. Last year, Elba Gordillo—the union's bombastic leader—was arrested on charges of embezzling millions of dollars in union funds for personal expenses including plastic surgery and luxury clothing (Archibald).

Given these issues, Mexican President Enrique Peña Nieto embarked on an ambitious reform of the country's education system in the spring of 2013. The new laws introduce teacher evaluation and set improve standards while creating an autonomous regulatory authority ("The Power and the Glory"). Their ultimate goal is to break the stranglehold that the SNTE has



maintained on the teaching profession in order to improve educational outcomes and introduce a measure of accountability into the country's broken schools. However, with such sweeping changes proposed, it should come as no surprise that the Peña Nieto government has encountered significant resistance. In the fall of 2013 tens of thousands of SNTE teachers went on a two-month strike, shutting down schools providing education for nearly 1.3 million children in Oaxaca (De Cordoba). With the bulk of the reforms having yet to take full effect, the stage is set for a continuing battle over the future of Mexico.

Mexico's struggle with its teacher union is symptomatic of much larger challenges the government faces in breaking the paralyzing grip the country's dual system of unions and monopolies has on the Mexican economy. President Peña Nieto has now enacted significant reforms to banking, education, energy, and telecoms (Negroponte). These reforms are all centered on one central tenet—increasing competition and productivity to boost growth in an increasingly globalized economy. However, many Mexicans remain skeptical that the president can achieve his ambitions. Peña Nieto's disapproval rating is now above 50%, largely due to a decrease in GDP growth over the last several months. If fully enacted, Mexico's reforms should go a long way toward accelerating the country's economic rise ("Turning on the Charm"). It remains to be seen if the Mexican people will wait that long.

Questions to Consider

1. What benefits would globalization provide to the developing world, and what long-term impact would this have on the global economy? Explain reasons why a developing nation would encourage globalization.
2. An ecotourism business model is heavily reliant on foreign travel. Would globalization have a positive or negative impact on this type of an economy? Why?
3. Can local business and an increased rate of globalization coexist? If so, how? If not, what are the competing factors that hinder each other's progress?
4. An isolationist state has been attempted in multiple countries to limit access to foreign goods. Is this a positive mechanism to regulating globalization? Or, do the negative implications outweigh the benefits?
5. Alibaba recently made its initial public offering (IPO). Research the company and explain its process of globalization across multiple nations. Also, describe the impact it has on the global scale.



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