

Comments from the Editor



Tamir Agmon,
Editor

International Business is a fascinating subject of research and teaching because it is hard to define, and it is impossible to put into one unifying and “orderly” paradigm. It cuts across disciplines, moves in time and place, and deals with people as individuals, and as members of business, cultural, and political groups. This is true in other fields of business and management as research and teaching topics like finance, marketing, organizational behavior and such like. The difference is that, whereas in a field like finance, research is based on abstracting from many of the aforementioned complexities and focusing on a rather simple model like the well-known perfect and complete market model, the complexity, the ambivalence, and the interface among different people and different groups, (organizations), is what international business is all about.

The interface between an individual and a group, and the love-hate relations between globalization as expressed by the MNE and other multinational organizations and processes and a substantial segment of the world's population is the subject of Professor Oren Kaplan's article on “Freud and Globalization”. He addresses two related questions; first, how can one account for the rise of nationalism and fundamentalism at the beginning of the 21st century? Looking at much of the literature on globalization since the 1980's one would expect to see now a global village at work. This is clearly not the case. The second question is what is the basis for the love-hate attitude of many people in the world toward globalization? Kaplan provides an answer using basic psychological needs and built-in human contradictions. There is no question that Freud, Le Bon, Bion, and others like them provide interesting insights into the processes of international business in general and to the recent process of globalization in particular. Whether such insights make research in

international business better is an open question. It is not clear whether as researchers we should provide a full description and analysis of the phenomenon known as international business with all its complexities, or is it better to abstract as much as possible and to provide a useful paradigm by focusing on one of two dimensions of what is a complex multidimensional problems where the different dimensions are not independent of each other. Different researchers in international business may have different answers, but even those who prefer a more limiting approach may benefit from considering the psychological dimension discussed in Kaplan's article.

Risk and opportunity are always the two sides of the same coin. The two articles by Jana and Michael Pisani, and by Ilan Alon provide us with two examples of change processes within the framework of international business and their associated dangers and opportunities. The first deals with the *Pochteca* traders in the 15th and the 16th century in Central America, the second with the current struggle between Japan and China. The *Pochteca* disappeared because they did not realize the nature of the change in their environment as a result of the Spanish occupation of Central America. The jury is still out on the way that Japan and China will resolve the conflict that arises as China's relative power grows. Change brings anxiety, fear, and angst. It affects people as individuals; it affects business groups like the *Pochteca* and national groups, (states) like Japan and China. Change is also a source for growth. Whether the changes in China will cause greater fear and anxiety in other countries, an anxiety and fear that can be translated into acts of violence and other dangers, or the changes in the relative power of China will be a source for a process of global growth that benefits all, will determine to a great extent the nature of international business in the years to come.

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Editor:

Tamir Agmon, AgmonT@st.colman.ac.il

Editorial Assistant:

Adi Gottlieb, adig@hdq.colman.ac.il



The College of Management
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Tel: +1-517-432-1452

Fax: +1-517-432-1009

Email: aib@msu.edu

<http://aib.msu.edu>

AIB Staff:

Tunga Kiyak, Managing Director

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*We look forward to your
comments and submissions.*



Oren Kaplan

Freud and Globalization: A Psychological Overview of the Nationalism Phenomenon during the Globalization Age

Clinical Psychologist
and Economist
The College of Management,
Rishon LeZion, Israel
okaplan@colman.ac.il

Nationalism as a Coping Mechanism with Globalization Angst

The economic globalization processes that take place during this period raise the question of whether they demonstrate the creation of a new world order, and if so, what is its nature? (e.g. Hirst and Thompson, 1999). This is an intriguing question especially since at this time, not only does nationalism not diminish, but rather more and more people around the world gather into nationalist groups. Surprisingly, it seems that the yearning for nationalism is stronger and not weaker, in parallel to the weakening in the position of the nation-state. While economic globalization processes open up vast opportunities for growth and global fraternity, they also come with a price, and this price and its risks are the focus of this paper.

The “Peace of Westphalia” treaty, which ended the Thirty Years’ War in 1648, is considered the turning point where the nation-state was first fully recognized. The wars that took place after the Peace of Westphalia were no longer as influenced by religious issues, but originated mainly from political and national issues. The treaty declared that the sovereign nation-state would be the highest governmental authority that is not subject to any foreign element. Yet, nationalism existed long before the Peace of Westphalia, and can be found in ancient texts, like the bible.

In our time, economic globalization strengthened the free market forces, and significantly reduced the autonomy of the state and its sovereignty. Various governmental activities that were previously the sole responsibility of the state and a source of its power began operating beyond the sovereign state framework, by market players and the civilian society (known as the convergence approach, e.g., Mosley, 2003). Many of these activities are global or multinational, and cannot be fully controlled by one state.

It is important to note that these processes are not always perceived only as efficient and beneficial to the citizen of the world’s quality of life. Sociology and political economy researchers, such as Zygmunt Bauman (2002), claim that globalization processes responsible for the state’s retreat and the privatization of society, create a political and moral helplessness. Bauman feels that the global age, in which the market was released from the supervising, limiting, and restraining grasp of the state, brought with it new forms of inequality and an increased damage to the human race. Central areas that were regulated by the state, such as employment, health, and the environment, are currently controlled by commercial institutions that are not democratically elected and therefore are not accountable for those who are affected by them. As a result, the ability of an individual to control his or her destiny is significantly limited. This creates a feeling of

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personal and political helplessness that blocks the individuals' action potential to define their surroundings' political and social agenda. Bauman illustrates his claim using modern phenomena that demonstrate people's basic existential experience in today's global world. For example, he explains the abundance of "Reality TV" shows, which reflect blunt individualism that justifies all means available to the individual for surviving in a competitive uncertain world. In this world, honesty and justice are translated into neutrality and indifference toward the fate of others, who find themselves helpless. Therefore, emotionally and existentially, the citizen of the global world is more vulnerable and more exposed to social injustice, and is therefore characterized by chronic existential anxiety. Naturally, this anxiety is found in certain segments of society (individuals, groups, and countries) while others, usually affluent ones, benefit from these processes.

I claim that globalization processes that dilute the meaning of the nation-state increase anxiety. The individual in the global society finds himself less personally protected facing the non-governmental institutions that control the economy. He feels lost inside the new order and rules dictated by globalization. History demonstrates that eras of dramatic changes in the structure of social order can cause inter-societal tension and fear of violent reaction and war. These, of course, depend on human organization into groups as a defense mechanism against anxiety and change, including on the national level. Since it is currently apparent that nationalism grows stronger as the nation-state weakens it creates dissonance. The dissonance created by globalization may well be directed toward violent conflicts, as has often happened in human history.

We can gain insights into this anxiety by reading Freud's manuscripts following World War I, which are marked by bitterness and a pessimist view of human nature and its destructive instincts. The following is my reading of Freud and others in the context of the anxiety generated by the processes of globalization.

The Group as a Container for Anxiety

Nationalism and the clustering of citizens under a nation-state are a type of group activity and group process. I will first present the point of view of Wilfred Bion, who is considered the father of the Tavistock approach for psychoanalytical thinking in working with groups and organizations. This approach may explain the root of the human motivation to assemble and operate in groups.

Bion (e.g., 1961) thinks that a person grows through an initial symbiosis with its mother in early life. This pattern then accompanies the adult throughout life. The fear to remain alone is the most basic existential anxiety and is a central motive for clustering in groups. Yet as the assembly process develops, a new anxiety may be evoked, the fear to be absorbed in the other or in the group and lose identity.

The term "Basic Assumptions" was coined by Bion to describe typical situations in the dynamics of group life, and to demonstrate the type of anxiety the group deals with in every stage of its life cycle. Notably, this approach claims that along with the proclaimed conscious central task of each group, there is another unconscious task concerning ways of handling personal and group anxiety. The dynamics of "basic assumptions" are a way to deal with anxiety caused by the fact that people are members of a group and individuals at the same time. Bion identified three "basic assumptions":

1. **Dependency:** This assumption refers to the group members' fantasy that if they follow a leader, dismiss themselves and their will, and agree to depend completely on the wishes of the leader, then the group will succeed at its task, and the wellbeing of the group members will be guaranteed.
2. **Fight or Flight:** This assumption maintains that an external common enemy that threatens the group exists in the group members' fantasy, and facing the threat warrants attack and struggle or flight from it.
3. **Pairing:** The fantasy at the root of a typical group dynamic is that the group will generate a couple that will

deliver salvation and continuity. This salvation can be an idea, protection from evil, recuperation, a future generation, vision, and more.

Bion's "basic assumptions" can also explain the consolidation process of a nation and the creation of a feeling of nationalism associated with it. Existential angst encourages the individual to join a group of people that may protect him from real and imaginary dangers. They make him follow blindly the leaders who command the state, obey its rules and even go to war declared against its enemies (and risk his life). Finally, he wishes that the state continue to exist forever and bring salvation to future generations, which turns the mortal individual to an immortal in his own imagination.

The global process is in conflict with the basic assumptions (BA's). The dependency on local leaders decreases, since their power weakens versus the global organizations. Global leadership is more diffuse and abstract. For example, who manages the Internet? Who controls the content of the network that is becoming the main information source of our world? Globalization also contradicts the second BA because the primary principle of globalization is that the world is one and differences among countries are becoming blurry. Who, then, is a friend and who is a foe? Threat becomes diffuse, as opposed to a clear target such as an enemy country; the fall of the Communist block, which was the main enemy of the West for half a century, led the world to seek new enemies. This in turn also makes the enemy diffuse. To which country does Osama bin Laden belong? The third BA also creates a problem since as people do not yet identify themselves with global kinship. It is unclear to which couple or family the "child" will be born, what is the vision and what is the nature of the expected salvation?

Confusion and helplessness drive people to seek a group with which they can identify with and that protect them from existential angst. Such groups are found amply within the nationalist framework, even if the nation-state is weakened. Nationalism is perceived as cultural heritage that is reminiscent of the good old order that existed before the confusion brought on by globalization.

The Root of the Nationalist Clustering

The roots of clustering are explained by Freud (1927) in his essay, "The Future of an Illusion". The emotional life of a young child follows the paths of initial narcissistic needs. He clings to subjects that ensure the gratification of his basic needs. Thus, the mother nurturing the breastfeeding baby becomes the first object of his love and the first defense against all the unknown dangers presented by the outside world. The mother becomes the first refuge from anxiety. This is the source of the Oedipus complex. The father, who is the mother's natural partner, becomes a focus of jealousy and anxiety, lest the mother's love will not suffice both for the baby's and the father's needs. The father's murder is the mythological solution for this fear. But the father's power, which triggers castration anxiety, teaches the young child about the ways of the world: a process of identification with the father is the healthy solution for the Oedipus complex, which is a critical milestone in a proper emotional and social development. Therefore, the nuclear family offers the child two basic emotions that help him deal with his primeval existential anxieties: love and identification. Most psychological theories agree that the patterns that are learned at a young age then become coping mechanisms that are activated again and again throughout adult life. Therefore, searches for objects of love and identification, which are also mentioned in various psychological texts after Freud (e.g. Kohut, 1977), become an internalized pattern that can explain different cases of human behavior. The nation-state is a type of object for identification and love as part of the individual's personality structure and as an answer to his most basic existential anxieties.

Trotter (1916) claims that the individual feels incomplete in his aloneness, and that this feeling arises in his childhood. This feeling of incompleteness develops the herd instinct and the need for grouping. Freud disagrees with Trotter regarding this interpretation. He thinks that this fear is directed at the mother and other people that the child knows. It is an expression of an unfulfilled (Oedipal) wish. The child's anxiety does not subside when he

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sees another person from the “herd”, but rather, the appearance of such a stranger would actually increase the anxiety or the jealousy towards others who gain the parents’ love. Yet, having no other choice and coming to terms with reality, the child must identify eventually with other children – the objects of jealousy. As a result, the feeling of a crowd or a sense of partnership is created in the children’s society, and is strengthened through the school community, the military community and so forth. Therefore, in Freud’s view, socialization originates from a hostile feeling of jealousy that becomes identification and brotherhood

through psychological defense mechanisms. Group members will project hostility and jealousy at an enemy they define, which is found outside the group’s boundaries.

Nationalism is an adult solution for existential angst. The parents’ home can no longer provide perfect protection facing the large hostile surroundings. As long as the

child was an infant and unaware of the scope of the outside world, this protection was enough. However, when he matures and wises up, he seeks for a new object to love and identify with that will fulfill his social needs and calm his fears. This is the nation-state. But why can the state not become the entire world in the global age? Can the UN organization or any other international organization not fulfill the same basic needs? Reality seems to prove that this is not the case. This day and age is characterized by entrenchment in nationalism and not in moving away from it.

In this context globalization creates jealousy and hostility among many groups. The fact that global economic processes do not foster equality but radicalize inequality in the world creates destructive envy. Melanie Klein (1975) writes about the baby’s envy to its mother’s breast that generates goodness and the destructive instinct it arises. Globalization brings with it the “West’s breasts”, which carries money and temptation to the poor. The

poor do not only enjoy the rich milk, but are also filled with envy and rage for that abundance, with a primeval craving to destroy it, even if they harm themselves in the process. Nationalist and religious fundamentalism that erupts at this period represents the destructive envy of the have-nots, at the sight of the opulence of the rich. It is reasonable to assume that these gaps will widen at the absence of a guiding hand that has existed during the hegemony of the welfare state.

Globalization processes allegedly promise a better world. Yet, past experience shows that alliances between nations are created not only for fraternity but also in order to define and face an external enemy. For example, the European Union bonded against the growing economic power of the United States. It now debates whether a Muslim state can join the EU, which is united by Christianity. On the other hand, the proclaimed opponents of globalization can be identified, whether they are anarchists demonstrating violently around the world or whether they are Muslim fundamentalists who threaten to attack global (Western) civilization. It must be said that as a response, the West, led by the United States, became more violent too. Therefore, the old enemy was defeated and the globalization process created new enemies. The new clustering creates new enemies and so on and so forth.

To summarize what has been said so far, globalization evokes anxiety and anger, because of the severe inequalities it creates among individuals and countries; because of the change it brings forth in lifestyle and well-known habits; and finally because the weakening of the nation-state places the individual in a more vulnerable position than in the past. People in anxiety and anger situations tend to cluster into groups, and in this case, into nationalistic and religious groups. They think that the group would protect them from fear and from the external enemy, real or imagined, and that through it, the enemy can be fought and destroyed.

Fear of the Future: “Civilization and its Discontents”

The new global order, at least as of today, has yet to bring salvation and brotherhood among nations. Theoretically, an enlightened

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civilization was supposed to solve the social conflicts in the global world. The brief history of the 21st century does not support this claim.

Freud (1921) writes in his essay, “Group Psychology and the Analysis of the Ego” that after psychology has dealt with the question of the individual’s spirit, it must also explain the emotional changes that are produced by the individual’s belonging to a group. If individuals cluster into a group, there must be some sort of glue that brings them together. The clustering of individuals around their nationality fits Freud’s definition of the group, and is not very complimentary for such a group of people (“The mob”, as appears in the German source of this article). Freud was influenced by the writing of Le Bon (1895), that later inspired also the writing of Bion. Le Bon claimed that the personal characteristics of an individual become blurry inside a group and their uniqueness disappears. This allows the collective unconscious of a group to rise. Inside a group, the individual feels a power that allows him to surrender to drives he would have restrained if he were alone. In such circumstance, the individual may lose his conscience and his sense of responsibility that originally evolve from social anxiety. Another active factor in a group situation is a kind of mass hypnosis—any emotion or action in a group becomes an epidemic that affects others in the group and encourages individuals to put off personal interests for the common good. Individuals in a group are suggestible (submit to hypnotic self-persuasion) and can act in ways that contradict his basic nature and differ from the way he usually acts. This explains how regular people could have performed atrocities when sent by their group to fight an enemy, real or imagined. Freud concludes that the individual inside a group descends in the ladder of civilization. While he may be gentle and educated as an individual, inside a group he may become “insensitive, barbaric, primitive, and of decreased intellect.” The group is impulsive, and operates unconsciously through its impulses, noble or cruel, from valor or cowardice, all according to circumstance. The group is easily influenced and has no sense of self-criticism; it has no doubts or hesitation. The group directs

itself to the extreme from the very beginning, “maybe” becomes certain, and paranoia becomes prosecution and escape. Convincing the masses, therefore, is not done by rational considerations but by blatant pictures and exaggerations that are repeated with pathos. The masses don’t want the truth. They live in fantasy and illusion without objective reality (Freud, 1921).

Among the factors affecting group behavior are civilization and culture. In its essay “Civilization and its Discontents”, Freud (1930) also criticizes the nature of human civilization. He claims that human suffering originates from three elements: forces of nature, the frailness of the human body, and the deficiency of the institutions that regulate human relations (family, state and society). Man can not control the first two, as he can not subdue nature and will forever be immortal. But the third element raises questions. Why is human suffering caused by manmade institutions inevitable? Freud’s answer is that this is a result of the interface between human nature and modern life,

(e.g. globalization). Freud claims that if we could get rid of civilization and return to be primitive like our ancestral forefathers, we may have not suffered as much. Freud wrote that scientific and technological development brought about human achievements that were supposed to generate great happiness. He describes (75 years ago) how in

his time there is no longer need to worry for a friend who traveled far away, as it is possible to receive a quick telephone call informing all is well. Similarly, the longing for children who are far away can be eased by hearing their voices. However, in second thought it is clear that without technology, friends and children couldn’t travel far, and then the need to communicate with them would not arise. Techno-

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logical advancement did not make the world a happier place with less suffering. Therefore, Freud thinks, we must examine the nature of human civilization that brings about innovation which can not generate happiness, and understand its roots and objectives. Globalization can also enter this category. Freud defines “civilization” as the sum of all achievements and institutions through which our lives have moved away from those of animals, and which focus on two goals: protecting humans from nature and regulating inter-personal relations. The first goal is mainly connected to various technological developments and also to spiritual and ideological activity. The second goal determines the nature of man’s social relations, as a family member, friend, and in his relation to the state. The existence of a civilization and a state governed by civil laws express the power of the group versus the power of the individual. Changes in the social grouping like those introduced by globalization create anxiety and angst.

Conclusion

Globalization processes have brought about a growth potential that focuses on certain segments around the world, and therefore creates larger inequality among individuals and groups than ever before. The strong ones grow stronger, and even if globalization helps the weak it fills them with anger, envy and fear. These phenomena characterize individuals as well as groups and nations.

The weakening of the nation-state creates dramatic changes in the delicate balance in inter-personal relations. Multinational organizations dictate the lifestyle for all. This situation creates anxiety and result in reclustered, and warfare.

Zigmunt Bauman (2002) claims that in the global era, economic powers have managed to free themselves, for the second time in history, from a limiting moral-legal framework. The first time was in the 18th century, when the business was separated from the household. This separation led to the period

named “wild capitalism”, which was marked by severe polarization between the rich and the poor, child labor, a long workday, and an immoral exploitation of people and resources. The modern welfare state that started developing during the 19th century succeeded in restraining the profit-driven activity of business. The fact that along with globalization processes there is a growing tendency toward nationalist, religious and even fundamentalist clustering points to the level of anxiety created by globalization processes, and the potential for damage that may be inflicted if global and national stabilizing mechanism are not put into place. Albert Einstein once said that he knows not with what weapons World War III will be fought, but World War IV will be fought with sticks and stones. In his essay “Why War?” Sigmund Freud (1933) writes in a letter to Einstein (just before WWII) that the only way to prevent the destruction of civilization is in the public’s organization around laws, regulations and authorities. Only through recognizing the common interests, do people feel affinity, and that may be the source of their power. Freud claimed that the humiliation of one element in the society makes it a vengeful enemy, even if the winner shows mercy. It appears that as long as economic globalization is not channeled for the benefit of all players in the global field, and without patronizing bias, then instead of leveraging the quality of life in our world, we may well face increased group conflicts and a life full of stress and fear.

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About the Author

Dr. Oren Kaplan, a clinical psychologist and economist, is the head of the MBA Management and Business Psychology Program in The School of Business, The College of Management, Rishon LeZion Israel. okaplan@colman.ac.il

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“‘Unknown World’ Globalization: The Aztec *Pochteca* and Long Distance Trade”¹

Michael J. Pisani

Associate Professor of
International Business
Central Michigan University
pisan1mj@cmich.edu



Jana S. Pisani
Assistant Professor
of World History
Ferris State University
janapisani@ferris.edu

In volume 5, issue 1 (2005) of *AIB Insights*, Professor Karl Moore reminded us with his article on the Roman Empire that globalization has a long and rich tradition in the “Old World.” This Old World business history most IB scholars are familiar with; however, the trading empires of Mali (Timbuktu) and Great Zimbabwe in Africa and the Amer-Indian empires of the Inca and the Aztecs are equally impressive if not as familiar. One group of ancient international businessmen within the Aztec Empire (1428-1521 A.D.), the *pochteca* (or merchants), deserve special mention.

A primary function the Aztec *pochteca* played within the Aztec Empire was the role of international traders.² The ancient Aztec Empire, located in the hearth of Mesoamerica, stretched from modern-day Central Mexico to Central America and was a nexus for inter- and intra-regional trade connecting the Americas. The *pochteca* specialized in the long-distance (international) trade of high-value, low-bulk luxury goods and functioned effectively as the wholesaler in the distribution channel for luxury goods in intra-regional trade as well as international trade. Since there were no beasts of burden in Mesoamerica, all of this trade was carried on human backs, notably those of the *pochteca*. The Aztec *pochteca* combined an effective product mix with a distribution network designed to augment their “global” presence in the empire. And as new areas and peoples were incorporated into the empire, trade expanded. The *pochteca* followed the “flag” as new territorial gains by the Aztec Empire meant further inroads into new markets on a permanent basis.

The majority of the Aztec merchant trade was in competitive advantage products such as feathers, precious stones, dyes,

animal skins, and human slaves. Thus, the *pochteca* facilitated the market exchange process between distant city-states and the Aztec Empire, sometimes at the behest of the Aztec rulers and other times on their own, but always with the intent of a profitable return on their high-risk efforts.

The exchange transmitted manufactured goods from the center of the Aztec Empire to the outlying provinces in return for raw materials. During the Aztec period, the merchants had control over price and distribution, permitting a terms of trade skewed towards the Aztec *pochteca*. The geography and local production traditions of ancient Mexico allowed for the development of specialized goods production centers—economic clusters—that in turn facilitated a network of raw materials for manufactured product exchanges. For example, Tenochtitlan (present-day Mexico City) was known for craftsmanship of jewelry, stones, obsidian, and copper bells whereas the Gulf Coast region of Teotihuacan (in present-day Veracruz state, Mexico) produced rubber balls, feathers and cacao (the currency of the region, which did indeed grow on trees!).

The *pochteca* were able to capitalize on this comparative advantage of regional goods to fulfill market and consumer needs through a sophisticated transport network. The *pochteca* employed this transport network as domestic and international traders of goods. In particular, the *pochteca* had a very close business relationship with the craftsmen, especially the feather workers, in the Aztec core. The *pochteca* engaging in this relational exchange process brought feather and other skilled craftsmen the raw materials they needed and, in turn, often funneled artisanal elite goods back into the domestic and foreign luxury markets.

The forte of the *pochteca* was long-distance trade in low-bulk, high-value products with foreign lands. The *pochteca* developed several strategic approaches to global trade in order to facilitate the exchange of goods between peoples and city-states. The value-added that the *pochteca* provided was as intermediary of products—getting the right products to the right places at the right times.

Direct import and export of products relied on the *pochteca* traveling beyond the bounds of the empire—such as the nearby independent city-states of Tlaxcalla (Cholula, in particular) and the distant lands of present-day Yucatan, Chiapas, the Petén (Guatemala), Belize, and Honduras inhabited mostly by the Maya. This was an arduous endeavor as the *pochteca* faced stiff resistance to their presence in border zones fraught with intrigue and confrontation. The threat of attack on *pochteca* trading caravans was a constant concern. As such, the *pochteca* were trained in the art of war and a class of warrior-*pochteca* assisted the trading mission. Thus a state-sponsored trade mission offered a valued opportunity to gain access to lands normally “off-limits” as the state provided military escort or negotiated the peaceful right to trade with the foreign entity.

One such documented state-sponsored trading mission occurred under the Aztec King Ahuizotl (ruled 1486-1502 A.D.) whereby the *pochteca* were entrusted with 1600 large white cotton blankets to trade with the city-state of Anahuac. Before the *pochteca* left on this particular trip, they traded the 1600 blankets in the marketplace of Tlateloco for lower bulk and presumably higher value finished luxury goods in order to trade with the Anahuac nobility. This trip was made possible by the “good offices” of both city-states and the *pochteca* did not miss an opportunity to also load the trade caravan with their own luxury goods as a joint venture in order to make additional exchanges in Anahuac while doing the bidding of the king.

Since the *pochteca* as an institution predates the Aztec Empire, many long-standing trade relationships existed along geopolitical cross-roads. Many times these critical geographical junctures were populated

by *Nahuatl* (Aztec) speaking *pochteca* who maintained a full-time *calpulli* (or barrio) within the centers or trade outposts. The establishment of these trading entrepôts pushed out the limits of *pochteca* travel and trade, enabling a further ability to access precious luxury items such as quetzal feathers, green stones, precious metals, animal skins and cacao in return for finished products from the Aztec core.

Although not laid out as a specific strategy of the *pochteca*, the small-scale import and export of goods across political boundaries did occur on a regular basis. The *pochteca* were not chiefly involved in this activity, however, as they tended to operate in large-scale trade caravans which would have attracted too much attention on the frontier to cross in an ad-hoc fashion. This small-scale trade was undertaken by local producers and regional traders trading in low to medium value goods (subsistence and craft products as well as some middle range utility goods), which caused little alarm for local rulers. On the other hand, unsolicited cross-border *pochteca* trade could have been interpreted as an “invasion” and a *causus belli*.

Spanish conquistadors led by Hernán Cortés ended the Aztec reign early in the sixteenth century. With the Spanish victory came the spoils: Spanish entrepreneurs usurped the profitable *pochteca* trade routes. However, the Aztec merchants also contributed to their own quick demise. They “refused” to trade in goods which the Spanish demanded. The Aztec merchants did not sense a seriousness to fulfill the needs of this “temporary” new market. The *pochteca* had seen empires come and go, yet they had retained their privileged socioeconomic position regardless of the central power brokers. The *pochteca* did not believe that the Spanish conquest might threaten their long held tradition of trade in very profitable elite indigenous products. Those who survive in changing global economies, ancient or modern, are those who are able to adapt (learn), innovate and compete... timeless lessons for international businessmen.

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About the Authors

Michael J. Pisani is an Associate Professor of International Business in the Department of Management at Central Michigan University. His research interests focus on Latin American business and economic phenomena, including: labor informality; entrepreneurship, microfinance and microenterprise development; regional integration; cross-border business interactions, international business (e.g., culture and MNCs, *maquiladoras*, radical regimes and MNCs); and management history (Aztecs).

Jana S. Pisani is an Assistant Professor of World History in the Department of Humanities at Ferris State University. Her research interests focus on sixteenth century British social and religious history as well as the developments in the Atlantic world created by European exploration and colonization.

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Pisani, Michael J. and Jane LeMaster (2000), "Commerce, International Trade and Management Before the >Discovery= of Europe: A Modern Management Reappraisal of Aztec Merchant Activity," *Latin American Business Review*, 1(4), 101-123.

Footnotes

¹ This essay draws primarily from Michael J. Pisani and Jane LeMaster (2000), "Commerce, International Trade and Management Before the >Discovery= of Europe: A Modern Management Reappraisal of Aztec Merchant Activity," *Latin American Business Review*. Please see the entire article for a more complete picture of the *pochteca* contribution to the Aztec economy as well as additional insights in the *pochteca* organization, managerial functions, and business practices, culture and rituals.

² Beyond their role as international traders, the *pochteca* also were charged with the oversight of marketplaces in the Aztec Empire and served the Empire as foreign service agents either clandestinely as spies or overtly as tax collectors and front line foot soldiers.



Ilan Alon, Ph.D.

Associate Professor of
International Business
Rollins College
ialon@rollins.edu

China vs. Japan: Who Trumps Asia?

*“China is a sleeping giant. Let her lie and sleep
for when she awakens she will tremble the world.”*

Napoleon Bonaparte

Napoleon’s visionary statement about China resounds nearly two centuries later. Today, the debate is less whether or when China will awaken, but how to come to grips with this new global reality. The sleeping dragon has awakened, and is jockeying for position in the global political economy.

Is China a threat or an opportunity to Japan? The answer is of course: yes! China is both a threat and an opportunity to Japan. The answer also depends in part on who is asking this question. The relationship between China and Japan is multidimensional, requiring an examination that cuts across the economic, political and social spectrums. This article examines the dynamics of Sino-Japanese

economic and socio-political engagements in a global context, provides evidence from statistics and experts, and suggests policy responses to enhance cooperative bilateral relations.

Basic statistics on the Japanese and Chinese domestic and international economy are shown in Table 1, below. After decades of

astonishing economic growth during the Cold War period, Japan has taken pride in being an economic miracle and becoming the second largest economy in the world. According to Prof. Toshihiko Kinoshita

of Waseda University, “Japan’s glorious decades from the 1960s to the 1980s, has been followed by a lost decade from the 1990s to 2002 during which time China rose to economic prominence.” Still, according to the Gross Domestic Product (GDP) statistics measured in current market exchange rates, Japan’s economy is more than triple the size of that of China. “Japan remains a 1st ranked Sumo, a real Yokozuna,” says Mr. Kevin Newman, Senior Manager with Nathan Associates Inc. who has previously worked with the Japanese Ministry of Home Affairs, the World Bank, the UN and other international development agencies. He adds that although battered by 15 years of deflation and economic stagnation, Japan is recovering. The country has changed drastically, for the better, and an economic map of its per capita wealth, global investment, and value-added goods could demonstrate its present and future strengths as well as its long-term competitive advantage. Indeed, as can be seen from the Table below, Japan trumps China in its per capita income using market exchange rates by a factor of 32 and using purchasing power by a much smaller yet substantial factor of 5.7. And despite China’s tenfold larger population, Japan’s total foreign reserves are more than double those of China.

Of course this economic story is incomplete. Chinese economic prowess looms large and is growing. This strength is manifested in economic and political terms in the global arena. While Japan is the second largest economy based on



Shanghai, China

Table 1: Basic Statistics on Japanese and Chinese Domestic and International Economy

	Japan	China
Population (million)	127	1,284
Population Growth	0.2	0.9
GDP (US\$ bn, Market Exchange Rate)	3,973	1,266
GDP (US\$ bn, PPP)	3,398	6,033
GDP per head (Market Exchange Rate)	31,270	986
GDP per head (PPP)	26,739	4,698
Labor costs per hour (US\$)	20.49	0.80
Foreign exchange reserves (m\$)	663,289	291,128
Real Domestic Demand Growth	0.2	8.3
Inflation	-0.4	-0.4
Current Account Balance/GDP	2.6	2.3
FDI inflows/GDP	0.2	3.9
Major exports	Transport equip., Electrical machinery	Clothing, Computers
Major imports	Machinery equip., Fuels	Electrical equip., Fuels

Source: The Economist, 2005 (www.economist.com)
Growth = 1998-2002 in %

GDP, China's economic size in terms of GDP measured by purchasing power parity (PPP) is much larger than that of Japan and second only to the United States of America. In Japan, a given dollar can buy 85% of the same goods it can buy in the United States. In contrast, a given dollar in China can buy about 4.77 times more things than in the United States. When measuring on a purchasing power parity basis, Japan is about 5.57 times more expensive and, thus, an adjustment to its GDP is needed for a meaningful comparison.

China's population is about 10 times larger than that of Japan. The top ten percent of the population in China earns approximately \$14,519 per person in PPP terms which is on par with the incomes of the individuals in the industrialized countries. Thus, the top ten percent of China make up a target market that is equivalent in size and purchasing power to a developed market.

China has several other economic advantages over Japan: a substantially higher growth rate in real domestic demand, a much lower cost of labor, and foreign investment inflows that rival no other in the world, including the United States of America. For businesses, the size of

the market coupled with its robust growth rate means higher per capita disposable income and larger markets, while an inexpensive labor force and investment inflows create a fertile environment for production.

According to Professor Kinoshita, "Japan can co-prosper with China since the two countries have different cost structures and complementary industries and products." Basing his findings on research by C. H. Kwan, a Senior Fellow of the Research Institute of Economy, Trade and Industry, Kinoshita noted that Japan has the most complementary market to China in Asia (Indonesia's was most competitive to China). However, the ratio of Japanese goods competing with Chinese goods exported to the United States has grown from 3 percent in 1990 to 21 percent in 2002.

The economic interdependence between Japan and China cannot be ignored. Accounting for 14.9 percent of China's total exports, Japan is the third largest market for Chinese goods and services, following the U.S. and Hong Kong, China's own administrative region. Conversely, China buys more from Japan than any other country, about 18.1 percent of its total imports. From the Japanese perspective,

China is Japan's second largest export customer and second largest import supplier after the U.S., with 9.6 percent and 13.0 percent of exports and imports respectively. According to Shane Frecklington, Manager of the American Chamber of Commerce in Shanghai, Japan is the second largest investor in China with 8% of total investment. "This investment has been critical to the supply chain of Japanese export industries, which have assembly and construction factories in China," claims Renfield Kuroda, Vice President of Deutsche Bank. For China, foreign direct investments in general contribute 20% of the GDP, 50% of total exports, 10% of urban workforce, and 16% of taxes collected. Such symbiotic relationship conveys a great deal regarding the opportunities of this long-term partnership.

China and Japan share an economic space. If one country falters, it will affect the other adversely. If one prospers, the other can piggy-back. Both countries face similar problems for which they can seek joint solutions: both countries are in the process of deregulating and liberalizing sectors of their respective economies, and both need to overhaul their banking systems. In other ways, too, the two economies have complementary needs. While the Japanese economy is sluggish, the Chinese one is overheating; while the Japanese are experiencing asset price deflation, the Chinese are experiencing asset price inflation. The two countries can benefit greatly from multi-layered cooperation to synergistically solve each others' economic problems and benefit from their respective strengths and know-how.

According to Allen Kupetz, President of Kpartnerz and a former U.S. State Department economic official in Korea, "the current interdependence of Japan and China will end within a decade. Chinese firms, now dependent on Japanese companies for product design and manufacturing expertise, will soon design more of their own products and move up the

food chain in terms of their ability to manufacture higher-end components." He adds that "Japan to remain competitive must continue to outsource manufacturing to China to lower cost and expand sales within China, exactly as most US firms are doing today. But the much larger US consumer spending power and growing trade deficit will give the US more leverage over China in trying to lessen the effects of the asymmetrical bilateral relationship. The Japanese will not be able to do this to the same extent because the Chinese would be much more willing to lose market share within Japan." This is clearly a threat.

Not everyone is convinced that China will remain the economic superpower everybody takes for granted. According to Mr. Newman, "China is simply an amalgamation of provinces, hinterlands, and different ethnic groups that now must be forged to achieve national economic integration. Dissent and regional rivalries will increasingly become rife, if not causing major disruptions. China cannot pollute unabated and discriminate with a heavy-hand forever." He continues that China's history is marked by "arrogance, belligerence and then dramatic downfalls," and, "without a solid local governmental administrative and wealth distribution policy." An unstable China is very worrisome. Mr. Newman is not alone in his view. A recent controversial (banned in China) book by Gordon G. Chang, *The Coming Collapse of China*, echoes some of the same arguments. Salient among Chang's arguments are that people are discontent, the state-owned enterprises are dying, information is not controllable, industrial policies reward the inept, Chinese banks are failing, WTO accession will trigger collapse, and ideology and politics restrain progress.

While the prospects

for economic relations are promising, at least in the short term, and the two countries are experiencing deepening economic connection, these are stifled by increasing potential for political conflicts. For example, Japan's actions during WWII, and in particular the Nanjing Massacre (1937-1938) have never been adequately addressed by the Japanese leadership. Frequent visits by the political elite of Japan to the Yasukuni shrine understandably angers the Chinese, who see it as proof that Japan refuses to renounce its militarist past. Even worse, according to Mr. Renfield Kuroda, Vice President of Deutsche Bank, "when the president of Fuji Xerox made a comment that the Prime Minister's visits to Yasukuni were bad for business, right-wingers threw a Molotov cocktail at his house and drove their trucks around his neighborhood blaring right-wing songs at 200 decibels." A visit to the Yasukuni shrine war museum reveals a much different, if not conflicting, interpretation of Japanese war history. The Chinese have not forgotten or forgiven the harsh Japanese occupation of China and its experimentation with chemical and biological weapons on Chinese soil and people. The bitter past and the present indignation have precluded Japan from winning infrastructure development bids such as the high-speed rails connecting Beijing and Shanghai and Olympics-related infrastructure development—an area of expertise for which Japan is globally renowned.



China, however, can carry some of the blame as well. The ominous political tension between China and Taiwan, the U.S., and its neighbors (including Australia) may force Japan to take sides and to jeopardize the economic relations thus far built. China's figures on defense spending are believed to be understated, fast rising, and comparable to Japan's. But Japan can only use its military for collective self-defense. Recent U.S. overtures to Japan by the Bush administration could be aimed at turning Japan into a military ally, similar to Britain, by allowing Japan to revise its constitution for a more activist role. The Chinese in the meanwhile are posturing in the South China Sea, making occasional naval incursions into Japan's waters, and building oil drilling platforms dangerously close to Japanese territory. In turn, Japanese right-wing politicians lash out at the Chinese; and the Chinese allow (perhaps even encourage) popular anger towards the Japanese. This type of contentious political environment is certainly a threat to bilateral relationships.

To say that China violates intellectual property rights, including those of Japan, is axiomatic. The Chinese have benefited by copying the Japanese economic development model, its industries, and its products. "China and the other developing nations do not understand the intellectual property right issues. They will continue copying. They do not see anything wrong in doing so," said Mr. K. Sam Tabucci, Japanese representative to Florida and Special Advisor to the Urban Land

Institute. By some estimates, piracy accounts for 92% of all software used on the mainland, and China accounts for two-thirds of counterfeit goods worldwide. A legal environment that does not conform to international intellectual property protection standards can threaten investment relations and encourage unjust expropriation of Japanese knowledge-based resources. As a member of the WTO, Japan can enforce intellectual property rights through international courts, though the legal maneuvering will not forestall active entrepreneurial property-rights' violations in China for the foreseeable future.

Given the opportunities and threats that China poses, how should Japan respond? According to K. Sam Tabuchi, Japan should copy the U.S. economic model, moving away from its traditional manufacturing focus to advanced and service industries. According to Mr. Tabuchi, the leadership in Japan is old fashioned, focusing on past glory and missing the point that the economist Schumpeter championed long ago—creative destruction must happen for an economy to cope with changing global conditions. This can help solve some of the economic threats of China. According to Kim Beng Phar, from the Asian Center for Media Studies, at the Star, Kuala Lumpur, Malaysia: on the political level "talks about China and Japan tend to focus single-mindedly on the highest tier of governmental relations." What may be more useful in the future is the creation of a multi-layered engagement that promotes dialogue

across and between the following nine levels:

1. Government-to-government relations
2. Think tanks to think tanks
3. Universities to universities
4. Cultural organizations to cultural organizations
5. Company to company
6. Tourism agencies to tourism agencies
7. Non-governmental organizations to non-governmental organizations
8. Religious organizations to religious organizations
9. Media organizations to media organizations

While no solution can be a panacea for the economic and socio-political threats that China imposes, the Japanese people, government, and businesses must face the reality and enigma that is China. Engaging China productively requires internal assessment, willingness to change, and behaviors that will encourage China to cooperate using relationships, diplomacy, patience, and restraint. A sincere apology for the Nanjing Massacre is an example of such needed diplomacy. China's premier Wen recently quoted an old Chinese saying in a meeting in Laos: "Let him who tied a bell on the tiger take it off." Each country must do its part to take the bell off, release the tensions, and make sure no new bells get hung on the tiger.

About the Author

Ilan Alon is Associate Professor of International Business and Director of the Global Practicum Program at Crummer Graduate School of Business, Rollins College. He is the author, editor, and co-editor of 10 books and over 80 published articles, chapters, and conference papers. His two recent books *Chinese Culture, Organizational Behavior and International Business Management* (Greenwood, 2003) and *Chinese Economic Transition and International Marketing Strategy* (Greenwood, 2003) are widely distributed among U.S. research and university libraries. Dr. Alon is a recent recipient of the Chinese Marketing Award, a dual award from the Tripod Marketing Association (China) and the Society for Marketing Advances (USA). He has taught in China's top MBA programs such as those at Shanghai Jiao Tong University, Fudan University and China Europe International Business School. He is also an international business consultant and a featured speaker in many professional associations.