Lokaverkefni til BS-prófs
í viðskiptafræði

Globalization in the Middle of the Ocean

Globalization in Iceland vs. Japan

Höskuldur Hrafn Guttormsson

Þóra H. Christiansen, Aðjunkt

Júní 2016

HÁSKÓLI ÍSLANDS
FÉLAGSVÍSINDASVIÐ
VIÐSKIPTAFRÆÐIDEILD

Globalization in the Middle of the Ocean

Globalization in Iceland vs. Japan

Höskuldur Hrafn Guttormsson

Lokaverkefni til BS-prófs í viðskiptafræði

Leiðbeinandi: Þóra H. Christiansen, Aðjunkt

Viðskiptafræðideild

Félagsvísindasvið Háskóla Íslands

Júní 2016

Globalization in the Middle of the Ocean.

Ritgerð þessi er 12 eininga lokaverkefni til BS-prófs við Viðskiptafræðideild, Félagsvísindasviði Háskóla Íslands.

Prentun: Háskólaprent

Reykjavík, 2016

Foreword

This thesis is written as a completion of a bachelor degree in the faculty of Business Administration at the University of Iceland and is evaluated to 12 ECTS credits. It is written in the field of International Business and Marketing during the spring of 2016.

The paper is an academic discussion of globalization in Iceland and Japan concluding with a comparison of the two. The reason for choosing this topic is the author's immense love for both of these countries. The author would like to thank Þóra H. Christiansen for her invaluable guidance and support during the process of this thesis as well as my father, Guttormur Ólafsson, for all the effort and patience in guiding me and proofreading the thesis.

Abstract

Both Iceland and Japan have a reputation of being globalized. These island nations have particularly different cultures but do share some similarities. The purpose of this thesis is to examine the difference and similarities of Iceland and Japan in regard to globalization and its effects on these nations. It is driven by the question: “What is similar and what is different in the globalization of Iceland and Japan?” How has globalization affected these two island nations and how did they achieve globalizing their economies? Answers to these questions will be sought for better understanding of the reasons for their success and the process they followed. Globalization and its effects will be defined and both cultures will be examined separately, followed by a comparative study of the two nations where the different factors and effects of globalization are discussed.

Findings reveal that culture plays the biggest role in globalizing countries and that Iceland and Japan have developed quite differently. In recent years Iceland has been experiencing decreased globalization whereas globalization in Japan has been increasing. Globalization enabled the 2008 financial crisis in Iceland which in turn affected Iceland’s level of globalization. Globalization also facilitated the development of Japanese business methods that caused an increase in export of Japanese products. Still, a high level of globalization is not always beneficial as it can stem from a lack of natural resources as well as have disastrous effects.

Table of Contents

Table of Figures

Introduction

Over the last century international relations and trade have increased exponentially and especially over the last two decades with economic and financial deregulation, political changes, advances in information technology and declining transaction costs. Perhaps one of the biggest factors has been the introduction of the Internet which has led to an enormous increase in international trade on a consumer level. This has enabled all kinds of businesses to operate not only in their country of origin, but almost anywhere in the world. Globalization continues to grow and will undoubtedly become a more integral part of our lives in the future. How globalization will affect the future is hard to predict but one cannot reject its growing influence (Scholte, 2005).

Globalization has been especially important for island nations that rely heavily on international trade. Two prime examples of this are Iceland and Japan. Countries with limited natural resources, isolated by the ocean, these two island nations, although seemingly different are quite similar in many ways. Both are relatively small, remote islands situated where natural disasters are prone to occur, especially earthquakes. Due to their positions above tectonic plate boundaries they are also rich with geothermal energy. Both have experienced some level of isolation, are fairly homogenous and have a rich history, filled with myths and legends. In regard to globalization their most defining trait is definitely that both countries rely heavily on import and export.

These two countries have for long recognized their similarities, worked together on various societal issues as well as having a long history of trading with each other. Japan has exported automobiles, electronics, rubber goods and electric turbines to Iceland and Iceland has exported relatively large amounts of marine goods and ferroalloys to Japan. In the beginning of 2016 Iceland and Japan celebrated the 60th anniversary of diplomatic relations and on that occasion the Icelandic foreign minister, Gunnar Bragi Sveinsson invited his Japanese counterpart, Fumio Kishida, to Iceland for a visit. After their meeting, the two ministers gave a joint statement, announcing their aim to further strengthen trade between the two countries as well as cooperating on Arctic and cultural issues and examining further cooperation possibilities in the energy sector with a particular emphasis on geothermal energy (Iceland and Japan have much in common, 2014).

It is interesting to study economies like those of Japan and Iceland. Economies that have been so remarkably affected by globalization and observe how globalization has shaped these nations in different ways. This thesis is driven by the question: "*What is similar and what is different in the globalization of Iceland and Japan?*" The following chapters will cover the intricacies of globalization in each country and notable characteristics that have played a role on their path to globalization. Followed by a comparison of the two and thoughts on what can be learnt from their successes and failures and thoughts on how other nations can benefit from that knowledge. How has globalization affected these two nations and what has it enabled them to do? Has one embraced globalization more effectively than the other and what can each nation learn from the other? Finally, what is likely to happen in the future with increased or decreased globalization for these island nations? These questions will be answered in the following chapters.

What is Globalization?

Advances in transportation, such as the invention of the locomotive or the jet engine and advances in communication, such as the telegraph or the internet, are all integral to the development and escalation of globalization. As the metaphorical gap between nations shrinks, everything changes, as the transfer of commodities and information across border becomes easier and faster, the more global the world becomes. Globalization is a term that is currently in frequent use and is something many businesses and countries wish and strive to attain, but what is globalization? Globalization has many different definitions, one thing they all have in common is that they all refer to globalization as a change of the world as we know it. As world consciousness increases the world itself "shrinks". As national economies grow more independent with cross border and international trade, access becomes easier and the world economy becomes more interconnected. In short: "*The growth of international trade in goods and services, financial flows, and the movement of labour across borders*" (Central Bank of Iceland, 2007). Meaning that with decreasing regulations regarding international trade, the world is slowly becoming more like one global market, instead of many small ones.

Globalization is an immensely broad concept that can be divided into several different sub categories, that is; cultural globalization, democratic globalization, economic globalization, political globalization, workforce globalization and historical globalization. Generally, when globalization is referenced, the focus is on economic, political and workforce globalization with the main focus on economic globalization. Therefore, for the purpose of this thesis the word globalization will be used mainly to refer to economic globalization, that is, integration of national economies into the international economy through trade, capital flows, migration of people and their knowledge, and the spread of technology. However, in order to further understand the reasons behind these factors, cultural elements, as well as cultural globalization, will also be covered to some extent.

The 19th century is generally considered the beginning and the most influential time for globalization (Scholte, 2005). Starting with advances in transportation in the 1880's that facilitated a significant increase in reliable long distance trading. The invention of the telegraph and the phone was the beginning of long distance information transfer that played an essential role in the first stages of globalization. The next big trigger for globalization was the invention of electricity and the growth of steel production as well as the emergence of European and American manufacturing industries and the establishment of multinational enterprises in the early 1900's. Then after the Second World War, globalization resumed its fast growth, as tariff barriers were lowered, the austerity of the war years dwindled and the demand for consumer goods increased exponentially. Finally, the development of technology in the late 20^{th} century with the introduction of the internet and the widespread availability of the personal computer stimulated further world globalization. Automation of production stirred not only the manufacturing industry but affected almost all industries just as more effective communication, like emails, contributed to the world "shrinking" considerably. Since then global political attitudes and economic policies have become more liberal which has allowed companies to take advantage of the immense technological advances that had taken place (Brooks, Weatherston & Wilkinson, 2010).

After the giant leap in technology and communication at the end of the 20^{th} century and the beginning of the 21^{st} everything still points to the continued growth of globalization. Even with the economic uproar following the 2008 international bank crisis globalization still perseveres. Policy makers all over the world are still working towards improved organization of the inter-connected nature of the global economy. In recent years even world institutions such as the WTO, UN, the World Bank, OECD and IMF have worked hard to facilitate globalization (Krueger, 2000).

What Does It All Mean?

Globalization affects the world in numerous and significant ways and many debate the effects it brings, both good and bad. The biggest concern people usually have with globalization is that they fear it might threaten a nation's sovereignty and that increased competition might lead to standardization with large corporations driving out small local businesses. Offshoring is also a major concern for many countries, where production is moved to less expensive locations. Such moves hurt one economy but do however add value to other economies and many countries have benefitted greatly from manufacturing products for other countries. One example of this is Vietnam, a popular place for large corporations to set up production facilities, where wages have increased five-fold in recent years. In fact, wages in globalizing developing countries like India, China and Bangladesh have been rising faster than in rich countries, and wages in rich ones faster than in non-globalising developing countries.

Another issue often associated with globalization is poverty. Even though there are countries in the world that have a rising poverty rate, for the last few decades globalization has helped reduce poverty so that more than 200 million people have risen above the poverty line in developing countries (Wade, 2004). There are some disagreements between experts whether the effects of globalization are detrimental or not for poor people in developing countries. As globalization has undoubtedly created opportunities for poorer countries by bringing production to them in the past, recently globalization has increased to the point where poor countries are underbidding each other to attract production from abroad. The one thing scholars agree on is that globalization has significantly increased the gap between the rich and the poor as the rich benefit the most from its effects (Osland, 2003).

Globalization affects labour rights as well. While it has brought many new, different types of jobs to developing countries with high rates of unemployment, it has also influenced a lack of job security (Stiglitz, 2006). There are those who believe that with more globalization comes more competition that leads to offshoring. In developing countries there is a large problem with competition where the labour standards are low and even in violation of human rights regulations. Because large western manufacturers look for cheap locations to offshore their production many developing countries compete to offer the lowest cost resulting in low wages and low labour standards (Osland, 2003).

Perhaps one of the most permanent effects globalization has had on our world is its effects on the environment. For the last couple of decades large multinational corporations have cut down enormous forestlands and emitted huge amounts of greenhouse gases causing irreversible harm to the earth. On the other hand, it is interesting to point out that international law has developed greatly in large part due to political globalization which has led to stricter regulations regarding the protection of the environment (Osland, 2003).

Globalization has arguably done its part for gender equality. In countries with high gender inequality women's rights organizations have been at the forefront of challenging gender biases (Moghadam, 2015). With the freedom of information in today's world inequality becomes easier to detect and women's right groups have actively worked to further establish equality and advance human rights where they were lacking.

Figure 1 is take from the textbook *The International Business Environment* and depicts the most influential factors determining the level of globalization. Economic, technological, political and social forces all play integral parts in determining how globalized a country is. As the figure shows, each factor is shaped by many influences that make up each environment (Brooks, Weatherston & Wilkinson, 2010).

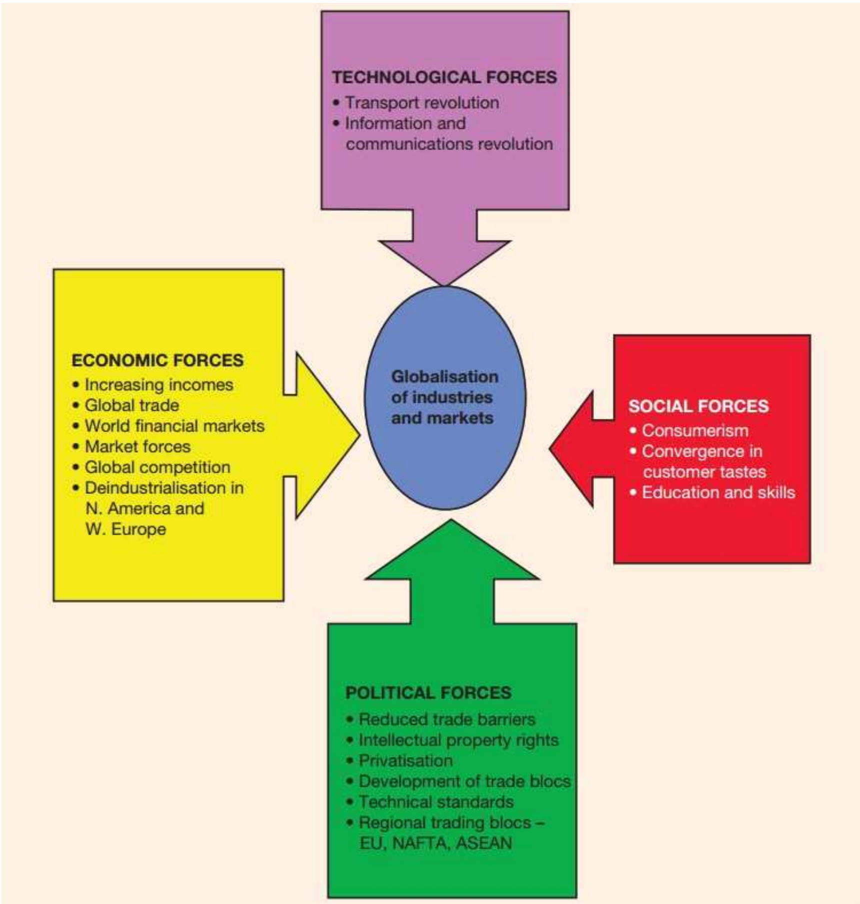

Figure 1 - Different forces effecting Globalization (Brooks, Weatherston & Wilkinson, 2010).

How has Globalization Affected Traditional Businesses?

The world as we know it is rapidly changing and there is nothing we can do about it; in order to stay competitive businesses have to be flexible and able to adapt to the changes in today's society. In recent years almost every organization in the world has changed, whether it is customer service, management, structure or strategy. Whatever the change, it is usually a decision that is taken as a response to changes in the business or economic environment. Changes are made carefully and strategically in order to last long term, however, due to the ever changing environment companies face, many have opted to change to incremental and emergent approaches to the process of strategy formulation (Mintzberg, 2000). This is ideal as it enables companies to be more adaptable as well as responsive to environmental change. Following these methods does not however, guarantee success. Businesses must be able to perceive their present situation and apply analytical and strategic thinking in order to best determine the correct or suitable course of action.

Many globally successful companies have adopted Kenichi Ohmae's famous phrase "*Think globally, act locally*" which in essence means that companies should regard the world as one large market but alter their products and services when needed in order to better serve each market segment, which in this context can mean different countries or continents. The degree of which this extends to is of course dependent on the product being produced, fashion items vary immensely between countries whereas CD's are sold unchanged all over the world (Brooks, Weatherston & Wilkinson, 2010).

These kinds of international business arrangements have led to the establishment of multinational enterprises, corporations that have a worldwide approach to reach markets and production with operations in numerous countries, often all over the world. Examples of these kinds of corporations are McDonald's, Starbucks, Toyota and Samsung to name a few (Hitt, Tihanyi, Miller, Connelly, 2006).

Karl Marx once famously said that large corporations will be the end of small local business which would eventually lead to loss of local culture. It is difficult to argue with that statement when brands like McDonald's and Starbucks can be spotted in big cities almost anywhere in the world. Let us however be reminded of Ohmae's famous phrase "*Think globally, act locally*" which proves to be very true for these companies where they are highly localized to accommodate local tastes (Sun, 2011). McDonalds for example despite having the core menu at all locations, offers different variations of the menu dependent on the culture. Despite being so localized these large chains do not drive out the small local businesses, the reason being that they can't possibly do local as well as the companies in each country. They lack the expertise to produce local products as authentic as the locals do.

The World Economic Forum is a Swiss non-profit organization committed to improving the state of the world by engaging business, political, academic, and other leaders of society to shape global, regional, and industry agendas (Lawrence & Hanouz, 2008). Their main activities include forums and conferences for business leaders, politicians and academics to discuss current world issues. They also annually publish numerous reports regarding competitiveness, global risk, and strategic thinking. One of these reports, *The Global Enabling Trade Report*, presents a cross-country analysis of measures facilitating trade among nations. The main factors examined were market access, border administration, business environment, and transport and communications infrastructure. It then presented a ranking list of the top 20 most global and emerging economies. In the 2010 report Iceland placed 11th of the most global countries in the world. A few years later, in 2014, it had completely dropped off the list (Lawrence, Hanouz, Doherty & Moavenzadeh, 2010). Although the order of the list changed considerably most of the countries listed in the 2010 report were still there in 2014. However, another island had replaced Iceland and been placed in 13th place. That island was Japan (Hanouz, Geiger, Doherty, 2014). What makes these relatively small island nations so special that they make it to the top 20 most global nations in the world?

Iceland

Iceland, a small island in the middle of the Atlantic Ocean with a population of only about 330.000 people. Despite being relatively small with an incredibly small population this unique island has an undisputable reputation. A reputation for being an egalitarian, progressive, peaceful and cultured country where everyone is happy and believes in elves and fairies. (Jacobs, 2013).

As mentioned before, in the global community Iceland is considered decidedly globalized. Iceland conducts international trade with many other countries as many Icelandic companies have been successful globally, such as the pharmaceutical company Actavis, the prosthetic maker Össur and food processing systems manufacturer Marel. Globalization's effects on small open economies like Iceland can be exceptionally large. It has opened up new export markets for Icelandic firms and given them an opportunity to expand worldwide, but it has also brought increased competition to the domestic product markets and tradable services. The opening of labour markets is of particular importance to volatile economies symbolized by large fluctuations in investments (Central Bank of Iceland, 2007).

Iceland is a country of relatively scarce natural resources. The main natural resources are energy and fertile fishing grounds. Due in part to its geographical location on top of two separating tectonic plates Iceland has the natural energy resources to produce more than five times the electricity it needs. Iceland is able to produce all its electricity though renewable energy such as hydropower and geothermal energy. Resources are so vast that plans are underway for laying a submarine power cable connecting Iceland and the UK that enables Iceland to sell cheap, leftover electricity to England. Many countries have looked to Iceland in order to learn how to become greener. Furthermore, Iceland's tourist industry has been rising exponentially in recent years, the low exchange rate of the Krona and increased popularity has resulted in over one million tourists visiting Iceland every year (Eliason, 2014).

Since the collapse of the financial sector in October 2008, the Icelandic economy has gone through dramatic changes and various new acts of law have been passed since in order to prevent the same mistakes being made again. The government is now working hard to remove the capital controls and they are expected to be removed in the next few months. The capital controls, which were imposed following the financial collapse, as well as loans from the International Monetary Fund (IMF) and stable economic growth, have now paid dividends for the Icelandic system. Iceland is in the process of rebuilding the economy but many fear that the country is on a fast track towards making the same mistakes that lead to the financial crisis in '08 (Irwin, 2015).

Iceland has had a unique image for a long time. For many it is a very alien looking island possessing natural wonders that exist nowhere else in the world, inhabited by peculiar people that believe in elves and fairies. Iceland's native language is Icelandic, derived from Old Norse, it is considered the closest language to that of the Vikings. The language is of Germanic roots and has similarities in all the Nordic languages as well as German and English. The majority of Icelanders speak English quite well due to a good education system that focuses on teaching children English from an early age. Besides the majority of Icelandic TV programming being of American origin with Icelandic subtitles. This often simplifies international relations and international business dealings as there is rarely need for specialized language training or translators (Hilmarsson-Dunn & Kristinsson, 2010).

Iceland's unique landscape has also been the intrigue of many tourists and has recently been a desirable location to film both movies and television shows. Large Hollywood movies such as Star Wars: The Force Awakens, The Secret Life of Walter Mitty and Oblivion as well as the highly popular television show, Game of Thrones. Tourism in Iceland is now bigger than ever and is becoming an exceedingly large part of Iceland's economy. Numbers have been growing rapidly for the last decade as Iceland becomes more and more popular (Eliason, 2014).

History of Icelandic Globalization

Iceland, a small island in the middle of the Atlantic Ocean with an economy based mainly on fishing from the ocean and renewable energy from the earth and rivers. Iceland has gone through several stages of economic development from the time of early settlement around 870 till today. When Iceland was first settled agriculture was the main means of living, agriculture then kept on being the country's main industry through the 19th century. During the 20th century fishing became the country's main industry and Icelanders started exporting fish to countries all over the world, e.g. to Portugal and Japan. While fishing still remains a major part of the Icelandic economy in the 21st century, energy production and tourism have grown significantly and are becoming the country's biggest industries. Despite that, fish and marine products are still the largest part of Icelandic exports with a 40% share of the total export value. Furthermore, energy intensive industries like aluminium smelting and ferrosilicon production have become a large part of the economy and are presently in second place in terms of export value (Statistics Iceland, 2015). Figure 2 is a Treemap from the *MIT Harvard Economic Complexity Observatory* portraying Iceland's exports, divided into categories differentiated by colour. The figure clearly shows marine products and aluminium as Iceland's biggest exports.

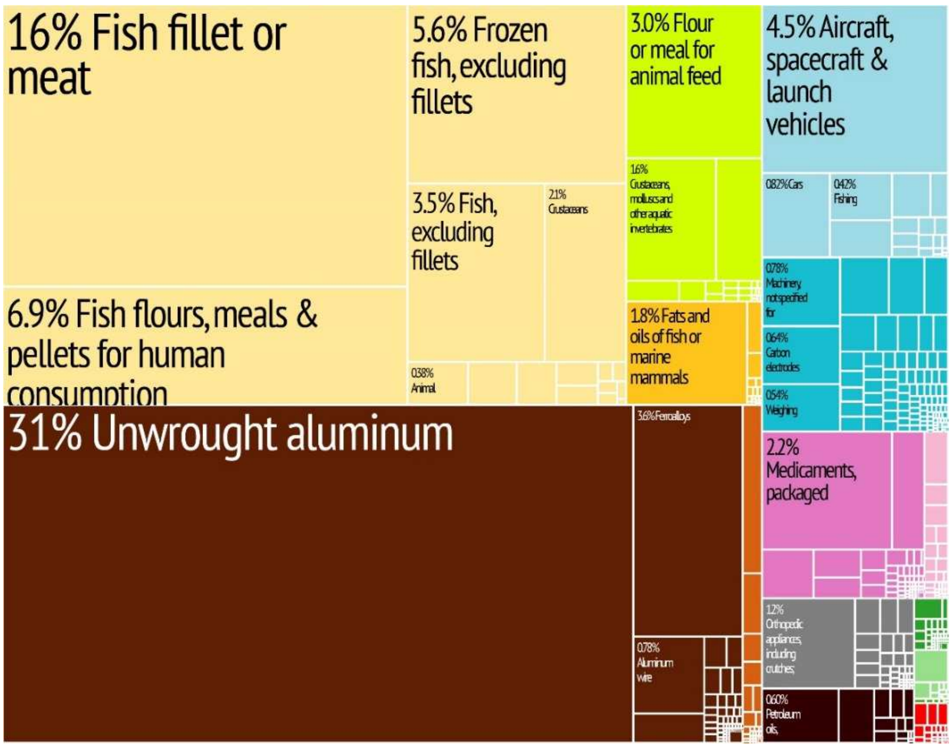

Figure 2 - Icelandic exports (Hidalgo & Simoes, 2011)

In recent years, Iceland has increasingly exported medicine, medical equipment and prosthetics. Össur, an Icelandic company, is one of the world's leading manufacturers of advanced prosthetics and is recognized by the World Economic Forum as a "Technology Pioneer" (World Economic Forum, n.d.). Moreover, export of computer software has increased dramatically and Iceland is gaining a reputation for being the home of well-educated computer experts. The computer sector now amounts to approximately 4% of Iceland's total GDP, reflecting what is common in many other western European countries (Ásbergsson, n.d.). Marine products are still Iceland's biggest export. With an annual catch of approximately two million metric tons, marine products account for around 1/3 of the country's foreign currency earnings. Iceland has the highest productivity levels in the world for fisheries and is the 12th largest fishing nation in the world. Fishing and fish processing equipment account for 8-10% of the national GDP and Icelandic fish and marine products are sold in all the world's major markets (Ásbergsson, n.d.).

In 1985 Iceland established its own domestic stock market, which greatly improved income and quality of life for many Icelanders. In the years that followed the Icelandic government began an aggressive program of privatization and in 1994 Iceland joined the European Economic Area, EEA, which gave open access to European markets. These changes contributed to the hyper-expansion of the three major Icelandic banks. Their highly leveraged growth fuelled massive stock market and housing bubbles. In the last years of the 20th century (1995-2000) wages increased by 45%. Then due to the Icelandic banks' operations abroad, biting off more than they could chew and lending large amounts outside the country, resulting in Iceland becoming dependent on other countries and getting back debts owed. Globalization therefore affected Iceland's economy to a large extent, opening up new export markets for Icelandic companies to expand worldwide but also invited increased competition to the Icelandic market. The biggest effect however resulted in the crash of the banking system and almost collapsing the Icelandic economy (Central Bank of Iceland, 2007; Eliason, 2014; Ingason, 2012).

The 2008 Bank Crisis

In the beginning of the 21st century the Icelandic economy was booming and the buying power of the Icelandic krona was turning to the better (Ingason, 2012). However, it all came crashing down in October 2008 with the collapse of Iceland's three largest banks. The three banks, Landsbanki, Kaupþing, and Glitnir had been giving out loans and accepting deposits in both the Netherlands and the UK with very attractive interest rates and overextending themselves. They had in fact built up assets that amounted up to 14 times the annual output of the entire Icelandic economy (Eliason, 2014).

In the years just before the bank crisis investors had acquired Icelandic assets and many Icelanders themselves had taken out loans denominated in foreign currencies, especially the Euro, as well as Swiss francs and Yen. Their reason for doing so was that foreign-denominated loans held lower interest rates than those offered in the Icelandic Krona. As soon as the bank crisis hit, the krona then plummeted in value due to investors rapidly converting their Icelandic assets into other foreign currencies. If the Krona would have collapsed completely it would have had fatal ramifications for the Icelandic economy. The reason being that, Icelandic households would not have been able to pay back their foreign-currency loans due to their assets and earnings being in Krona's causing their debt to rise dramatically. Furthermore, it would have caused Iceland's extensive flow of imports to become tremendously expensive resulting in extreme inflation. The inflation, in turn, would have caused immense difficulties for all Icelanders, regardless of foreign-currency debt. The reason being that numerous Icelandic loans were indexed to inflation (Eliason, 2014).

Capital Controls

When the financial crisis hit in 2008 the Icelandic government imposed capital controls on the Icelandic Krona in order to save the currency. The controls helped the Krona by slowing down capital flight, preventing investors, who had built up large positions in Icelandic assets, from selling them and converting the profits to a foreign currency and thus pulling them out of the economy. Had this happened on a large scale it would have been the end of the Krona. The controls also reduced the amount which investors who held Krona-denominated assets abroad could trade in for a hard-currency return. Had those assets been brought back to Iceland and sold for Kronas they would most likely have been quickly exchanged to other currencies. These restrictions by the capital controls kept the Krona from depreciating as much as it surely would have otherwise (C.W. 2015).

The capital controls helped prevent the collapse of the Krona but quickly became more of a problem than a solution. The controls were intended to be dropped after a period of six months but are still in effect eight years later. The controls have contributed to high inflation as well as a problem for Icelandic companies wanting to expand abroad. Even though most Icelanders agree that the capital controls need to be removed it is feared that removing the controls could have harmful effects on the highly unstable Krona. The domestic Icelandic economy simply does not produce enough foreign currency for creditors to be able to redeem their assets from their current account balance. Although it is hard to predict what exactly will happen when the capital controls will be lifted it has been a priority issue for the current government, an issue many hope will be resolved as soon as possible (Eliason, 2014). The government is now very close to being able to remove the controls and in order to do so The Central Bank of Iceland has agreed to exempt the banks from them.

The Role of Iceland in the Global Community

Despite being a small island with a small population, Iceland is well known in the global community and numerous internationally recognized companies are of Icelandic descent. Companies such as the drug manufacturer Actavis, the prosthetics manufacturer Össur, the creators of the famous videogame Eve Online*,* CCP, Marel, Icelandic Group, Clara, Plain Vanilla Games and many more.

Iceland takes an active stance in global politics, being a member of the UN and a part of the European Economic Area (EEA). Iceland is also a member of the European Free Trade Association (EFTA), a free trade association of four non-EU European countries. Because of its membership in the EEA, Iceland is able to participate in specific EU programmes such as environmental, educational and enterprise programs. Besides, Iceland frequently consults the EU on foreign affairs and supports EU's foreign policy.

The economic relationship Iceland has with the European Union is based primarily on two agreements. A bilateral trade agreement was first established in 1972 and in 1994 Iceland became a member of the EEA. Through the EEA Iceland has been given access to the EU market excluding fisheries and agriculture due to Iceland's specific conditions and fear of losing its competitive advantage (European Union, n.d.).

The question of the accession of Iceland to the European Union is a contentious political issue. On July 16th in 2009 Iceland fist applied to join the European Union and formal negotiations began roughly a year later. However, due to continuous problems and lack of public support, three years later the Government of Iceland disbanded the team in charge of the accession to the EU and suspended the application. Most recently, on March 12th 2015, Gunnar Bragi Sveinsson the Foreign Minister of Iceland released a statement declaring that he had formally requested the withdrawal of the Icelandic application for membership in the EU (European Union, n.d.). Opinions differ on why some Icelanders are against joining the EU, some believe joining would have adverse effects on the Icelandic fishing and agriculture industries while others blame it on nationalism.

One major concern for Iceland is the impact globalization has on inflation. Furthermore, the implications financial globalization has had on the transmission mechanism of monetary policy directly influences the ability of central banks to contain inflation. In recent years it is this aspect of globalization that has most drastically impacted the Icelandic economy. Financially, globalisation has played a part in the build-up of an enormous deficit on the current account in Iceland and many other countries and surpluses in others. With a currency as weak and volatile as the Krona, Iceland is very susceptible to currency fluctuations and inflation (Central Bank of Iceland, 2007).

Future Prospects of Globalization in Iceland

The Icelandic economy has by now recovered from the economic crisis, boosted by the fishing industry and increased tourism. The international Monetary Fund stated in March 2016 that the government has made large steps towards improving financial stability but there still remain gaps in banking supervision and financial safety nets. The removal of the capital controls promises to improve the Icelandic economic system in the long run but might cause some degree of instability short-term (Rankin, 2015).

Many official parties publish competitive lists and rankings between countries in various fields of international relations, competitiveness and more. Figure 3 shows that Iceland is rated highly on many of those lists, especially lists on innovation and democracy. Having been among the world's top countries in regard to globalization Iceland has steadily declined since the financial crisis. It has dropped on lists on globalization, proprietary rights and online administration (Ingason, 2012). Figure 3 depicts the position of Iceland regarding a few determining factors of globalization in 2010 which was the time Iceland began to slowly descend down these lists. As can be seen on the figure, Iceland ranks relatively high in overall globalization and is the leading country in innovation.

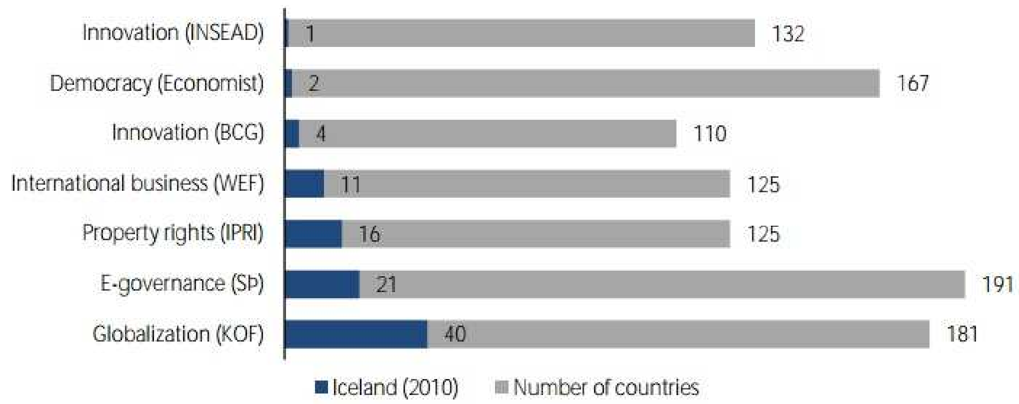

Figure 3 - Ranking of Iceland in a few competitiveness rankings (Ingason, 2012).

In January 2011 the Prime minister of Iceland gave a statement introducing a new government policy for the Icelandic economy and community called "*Iceland 2020 – Knowledge, Sustainability, Welfare.*" This policy statement promises an efficient economy and society. It includes plans for investments in human resources and necessary infrastructures for the economy, as well as policies on how to strengthen education and culture, innovation and development, the environment and social infrastructure (Ingason, 2012).

In Iceland, despite a particularly high level of English ability, there exists a strong degree of language purism. According to Hallfríður Þórarinsdóttir whose doctoral dissertation covered Icelandic language policy, language purism is a form of less worthy nationalism. She believes that Iceland, among most other nations, needs to become more multi-cultural. Icelanders must revaluate what it is to be Icelandic and whether or not it involves language purity. If Iceland is to avoid racial and ethnic conflicts with immigrants, Icelanders in the future need to expand their definition of how they define the nation. This in turn will lead to consideration of what is more important, love of independence or love of purity (Þórarinsdóttir, 2001).

Japan

Japan is a country where the culture is an intriguing mix of old traditions, innovation and technology. A historically isolated archipelago in the Pacific Ocean with an exceptionally homogenous population of 127 million, Japan is famous for advanced technology and colourful culture. Japanese products, automobiles, computers and electronics are sold worldwide and known for their quality and low price. It was the culture as well as government legislations regarding import and export that led to increased competition and improved quality during the 20th century, resulting in the Japanese being able to provide quality products at a low price. Japan's economy grew exponentially and peaked in the 1980's when Japan became the world's largest creditor nation and the first Asian country to become a first world nation where living standards and longevity were among the highest in the world (Nathan, 2004). It was during that time when Japan enjoyed a massive trade surplus and huge economic growth due to its valuable exports, despite the fact that it lacked a significant amount of natural resources and had to import a great deal from abroad. Which still remains true today.

It is fascinating how, after the second world war, the Japanese took western ideologies regarding businesses and adapted them to their own culture, making something inherently unique. Not only have they adapted western business methods but numerous other things. Their writing system is adopted from the Chinese, their parliament from western civilization and the Japanese language takes many loan words from other languages, most notably English. However, despite having so many loan words from English, a very small portion of Japanese actually speak English (Disappointing levels of English, 2015).

A defining trait of Japanese culture is collectivism as opposed to most western cultures which are individualistic.[1]Iceland, for example, is characteristically individualistic. Collectivistic cultures emphasize duty and loyalty to collectivistic goals and achievements instead of individual gain. This leads to the most important characteristic of Japanese business culture, the long-term employment contracts. Rather than being awarded for

[1] Collectivism and Individualism are two different poles frequently used to distinguish cultures in Management and anthropology studies (Hofstede, 2001; Kreiner, 2007).

progress and efficiency, Japanese workers are awarded for loyalty and years worked for the company (Nathan, 2004).

In order to be able to compete in the global market today, companies need to market their products to many markets with different types of customers with various different needs. To be able to do so companies need diversified staff with labour from different cultures who better understand those customer needs. The efficiency changes that are currently being made in Japan clash significantly with the traditional business model and that is what makes the topic all the more fascinating. The traditional Japanese business model is built on respect and honour reflected by Japan's cultural values. Respect is shown by working long hours and loyalty to one's company by signing long-term employment contracts, committing oneself for life (Melville, 1999; Tan, 2013).

One of the biggest problems Japan is facing at the moment is shrinking of the population. The problem is twofold. Firstly, Japanese seniors are experiencing prolonged longevity, forcing many to come out of retirement as they've outlived their pension. Second, birth rate has declined drastically as fewer young people are getting married and having more than one child. If this trend continues it is estimated that by the year 2050 almost 40 percent of the Japanese population will be over the age of 65 (Nakamura, 2004). Therefore, if Japanese companies do not change their long-term employment contracts and seniority system they are bound to crash and burn in the near future. An aging work force that demands higher salaries means that companies will experience increased cost and less efficiency.

Another possible solution for the problem could be to make better use of the female labour force, as in Japan women do not have equal job opportunities as men and therefore are more likely to leave their jobs to become homemakers. Due to lack of equal opportunity laws women's' wages tend to be significantly lower than men's. Men outnumber women in the working place ten to one (Nakamura, 2004). Furthermore, where working long hours is expected, women, associated with long periods of absence related to childbirth and childcare, are often subject to being passed over for promotions. This results in women in pursuit of a career usually giving up on having children in order to succeed thus contributing to the declining birth rate. By getting rid of such taboos, the labour force could be utilized significantly better and benefit the Japanese economy greatly (Fackler, 2009). Globalization has already done its part in nudging many Japanese companies in the right direction, as companies operating overseas in the international environment have to include equal opportunities for employment (Nakamura, 2004).

Globalization has contributed to fundamental structural changes of the traditional business model as many Japanese companies have regarded globalization as the only possible way out of the ongoing economic crisis in Japan. Global competition has forced some Japanese companies to cut cost by altering company (and Japanese) norms by using resources from other countries rather than domestic resources in order to stay competitive. Studies have shown that the traditional Japanese business models of large corporations with highly diversified business portfolios and a focus on the domestic market have not been resilient during recent crises (Tan, 2013).

History of Japanese Globalization

Several factors influenced the unique development of Japanese culture and Japan's international relations. The population of Japan has been largely homogenous for over 2,000 years with Japanese as the main language acting as a cultural barrier for a long time, often making international relations challenging. Furthermore, they spent roughly 200 years in near complete isolation during the Shogun era from the 1630's until the 1850's closing off the majority of external influences.

Two distinct periods define the history and the development of Japan. First, the period up to the mid-1850s, when Japan was greatly influenced by Chinese and Korean culture, and the second, the period from 1850 when the opening of Japan was facilitated by commodore Perry, and Japan became heavily influenced by western culture (Meyer, 1993). For a long time in history Japan had been isolated. It wasn't until the end of the third Tokugawa *shogunate* (around 1868) that Japan was no longer closed off to foreigners. The isolation before that time led to the creation of Japan's own unique way of social and business procedures (Melville, 1999). The period of the Meiji regime (1868-1912) undeniably brought forth the most radical changes to Japanese society and culture (Witkowski, 2014). From 1868 Japan looked westward and started applying and adjusting western customs and adapting them to Japanese culture. The period is often referred to as the westernization of Japan.

During the Meiji period, from the opening of Japan up until the end of World War II, corporate alliances played a dominant role in Japanese markets. These alliances, known as the '*Zaibatsu*'. *Zaibatsu* meaning "financial clique," were business enterprises controlled by large families in charge of holding companies or a wide group of heavily related companies (Melville, 1999). The *zaibatsu* is not a historically unique phenomenon but the scale and number of them in Japan at the time was certainly unique. They became so big and influential that they were able to control parts of the economy. They also played a crucial role in the industrial expansion of Japan, breaking new ground with well-financed businesses capable of expanding internationally. At the end of World War II the *zaibatsu* were dissolved by the American occupation as the Americans believed that the monopoly of the zaibatsu fostered war mobilization. The disbanding did not last long as after the occupation ended the former *zaibatsu* groups reformed, avoiding the antimonopoly restrictions set by the Americans, by restructuring and forming the '*Keiretsu'*. The *keiretsu*, meaning lineage, come in two different types, *horizontal keiretsu* and *vertical keiretsu* (Keiretsu, n.d). The *horizontal keiretsu* were common soon after World War II and were made up of connected companies usually centered around a bank. Today *vertical keiretsu*, named after their hierarchical structure, are more common where manufacturers and distributers are connected through an informal and often intertwining proprietorship (Melville, 1999).

In the 30 years following World War II, it became common in Japan to adapt western marketing strategies and apply them to the Japanese business structure. It was during that period that international trade expanded significantly and Japanese products gained worldwide acceptance. This success can in many ways be attributed to the high tariff and nontariff barriers set by the Japanese government. The government regularly intervened by subsidising and financially supporting businesses and the Minister of international trade oversaw centralized planning, protecting home markets, low labour costs and the development of monopolies rather than competition (Nakanishi, 1981). Furthermore, the continuation of the keiretsu and the guarantee of lifetime employment for a substantial portion of the urban labour force defined the post-war economy and are still visible today. However, these features are now dwindling due to the pressure of global competition as well as domestic demographic change (Central Intelligence Agency, 2016).

After prospering in the 1980's Japan's fortune turned for the worse in the early 90's. The economic bubble burst and in almost an instant, the Tokyo Stock Exchange plummeted causing one of the largest asset deflations in history (Nathan, 2004). At the same time the end of the Cold War led to the acceleration of globalization as national borders did not pose as big of an issue for businesses as before. All over the world labour transfers between countries and foreign investment increased substantially (Nakamura, 2004). International business relations grew stronger and businesses expanded globally, while the Japanese economy shrank and experienced almost a constant deflation in the years 1999-2006 (Indexmundi, 2013).

In the 1990's, foreign investment was one of the leading factors that led to the rapid advancement of globalization. All over the world companies were merging and investing in factories overseas. As Japan was facing an economic downturn, foreign investment would have been a smart move in an attempt to revitalize the economy. Japanese companies, however, did not follow this trend even though a considerable number of these companies were either exporting or importing goods. Since the 1990's foreign investment in Japan has increased at a moderate pace but would still be considered rather low. For example foreign investment in The United Kingdom in 2000 was 7.86% of the nominal GDP but merely 0.17% in Japan (The Global Economy, 2014). Furthermore, inflow of investments into the country has increased as well, started in 1999 when Nissan created an alliance with Renault and Japan Telecom with AT&T (Nakamura, 2004).

In the early 2000's a change in government policies regarding foreign investment sparked a surge in investment and in 2005 foreign investment increased by 86% (Urata, 2005). Ever since World War II the Japanese government has supported and maintained balance of businesses with strict and intricate regulations. These regulations were put in place as many different industries were connected and reliant on each other, especially due to the size and span of the Keiretsu. The government therefore put these regulations in effect in order to protect Japanese industries from falling like dominos if one started failing. During the last decade many of these regulations have been changed or abolished due to the change of businesses and business practices (Nakamura, 2004). As Japanese companies are becoming more global there is not as much need for these regulations as before and it is expected that they will continue to disappear in the future, allowing companies to globalize further (Tan, 2013).

The Japanese economy was also affected by the global financial crisis. It has been facing hard times since 2008, when it first showed recessionary symptoms. The government put together several stimulus packages that helped the economy recover a bit but the massive earthquake in 2011 shook the already fragile economy substantially. In recent years economic growth has fluctuated between 0.5-2% which is significantly lower than it was before the turn of the century. The nominal GDP of Japan is $4.77 trillion, its GDP (PPP) is $4.78 trillion, and its GDP (PPP) per capita is $37,683 (Bajpai, n.d.). Since the economic bubble burst, Japan is still the most indebted country in the world with debt amounting to 228% of its GDP (Central Intelligence Agency, 2016). Nevertheless, according to the World Bank (2016) until recently, Japan was the world's second largest economic power but was surpassed by China and is now in third place.

The Role of Japan in the Global Community

Since World War II due to the unique developments of the Japanese business module Japanese companies have been able to provide quality products at a low price anywhere in the World. Japan became recognized as provider of high quality goods and developer of technological advances. Still today the words "*Made in Japan*" are considered a guarantee of quality. Japan is home to many of the world's most famous and recognizable brands. Large global corporations like Toyota, Sony, Toshiba and Canon sell their products all over the world and many of which are category leaders. In recent years Japanese manufacturers have experienced increased competition from Korean companies. Korean car and electronics manufactures are now surpassing Japanese companies and Korean companies such as Samsung and LG make some of the world's most popular smartphones (Kuchikomi, 2012).

As stated earlier, the homogenous Japanese rarely hire foreigners and have preferred to do business domestically. That is however changing, in 1999 Nissan became first Japanese company to hire foreign CEO. After not having been able to return a profit in almost a decade after the economic bubble burst in 1990, an alliance was created with Renault. In an attempt to make Nissan profitable again the French-Brazilian-Lebanese Carlos Ghosn was sent to Japan to mend the situation. It was not long until his success resulted in him being appointed the first CEO of a large Japanese company. He went against most of the traditional Japanese customs as he shut down production plants, leaving thousands unemployed and abolished the long-term employment system. Interestingly enough, only a year after these changes were made Nissan experienced their best financial performance since its establishment. It is believed that this event changed the minds of many Japanese for the possibility of change (Nathan, 2004).

Japan is a member of the UN and the ACD as well as having close relations with the majority of the ASEAN[2] countries. Beyond its immediate neighbours, Japan has in recent years actively pursued a more committed foreign policy, recognizing the responsibility which goes along with its economic strength. Building this policy Japan has recovered its influences and maintains positive relations with most of the world. There are, however, two countries that regard Japanese influences as negative, that is China and South Korea. Japan has formally issued apologies for its military occupations and atrocities during World War II, but has not done much else in order to fix relations with China and South Korea. Both of which still demand that Japan does more to amend for its offences (Pew Research Center, 2015).

Future Prospects of Globalization in Japan

How will globalization affect Japan in the future? It is evident that in order to become more globalized Japan needs to sacrifice many of its traditions for the sake of becoming wholly globalized. Old values such as long term employment and age based promotion systems only hinder effectiveness as it impedes competition. Since Japan's

[2] ASEAN, The Association of Southeast Asian Nations is a political economic organization that includes: Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma, Philippines, Singapore, Thailand and Vietnam.

economic downturn around the millennia, the Japanese business model has been changing slowly as companies opt to become more efficient. It is however uncertain if globalizing will be enough to draw Japan out of its current economic slump. With an ever aging workforce the nation might be facing more serious problems in the near future. By 2050, the Japanese population is expected to shrink to below 100 million people. Therefore, increasing the need for Japanese businesses to internationalize in order to survive (Tan, 2013).

Japan is still dependent on export of automobiles and electronics which comprise a large part of its GDP. Figure 4 shows Japanese exports divided into categories by colour. Japan’s biggest exports, Electronics and automobile products are displayed in shades of blue. Recently Japan has been experiencing increased competition from other countries such as Korea which threatens to surpass Japan and would cause a loss of considerably market share.

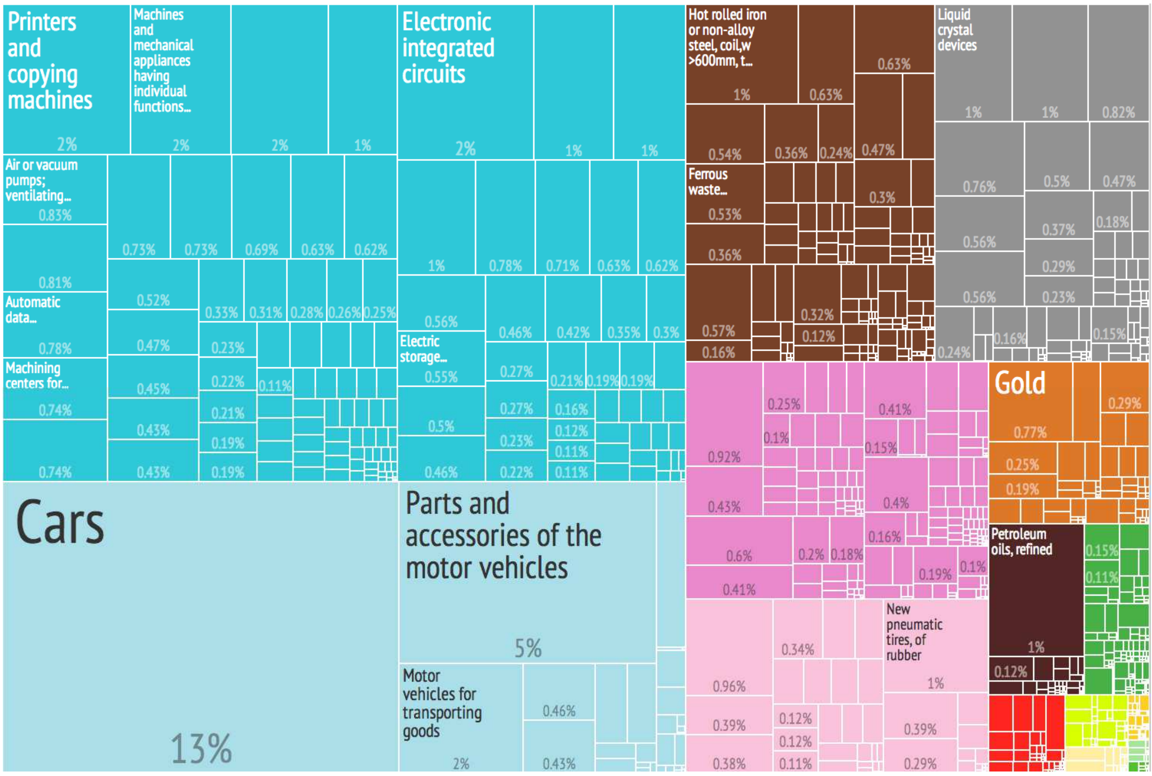

Figure 4 - Japanese exports (Hidalgo & Simoes, 2011)

It is clear that Japan will face numerous problems in the future, however the last decade is a good indicator that the Japanese are willing to change their methods to some extent in order to regain their competitive edge. Moreover, the upcoming 2020 Tokyo Olympics pose an enormous opportunity for Japan to present a good image of the country and its potential. With already millions of dollars going into preparing Tokyo for the Olympics which are sure to result in an economic stimulus when the time comes (Osada, Ojima, Kurachi, Miura, Kawamoto, 2016).

Comparing the Two Island Nations

There are many factors that one must take into account when interpreting measures of globalization. If the correct measures are not taken into account smaller countries will usually come out higher than larger ones. Small countries, like Singapore, depend on being global in order to survive. They import and export almost everything, sometimes even water. Larger economies like the United States do a lot of trading domestically and therefore score lower. Still, the US is home to a few of the world's most global cities, like New York and San Francisco. Therefore, the KOF index, the most recognized and often cited index in international studies will be used for the comparison of the two countries. In the KOF index globalization is defined as follows:

> The process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence (Swiss Federal Institute of Technology Zurich, 2013).

The ETH Zurich (Swiss Federal Institute of Technology) gathers various data from all the countries in the world and compiles a detailed ranking of the world's most globalized nations. Their ranking, the KOF index, is the most often cited list when it comes to comparing the level of globalization between countries. It takes into account everything from economic and environmental indicators to innovation and education. The index also enables users to isolate and compare specific aspects that contribute to a countries overall score. Additionally, the website The Global Economy compiles data from various sources such as the World Bank, the United Nations, the US Energy Information Administration, UNESCO, and the World Economic Forum (the institute that formulates the KOF index). This website, which offers detailed, isolatable information on each factor that relates to globalization of every country in the world will also be utilized for further understanding of globalization.

Using both the KOF index and information gathered from the Global Economy a few main factors will be used to compare Iceland and Japan in regard to globalization and its effects. In addition, a few factors will be handpicked in light of previous research regarding the two countries as well as relevant cultural factors. The following factors will be examined and discussed: Economic growth, direct foreign investment, imports and exports, energy use, labour force and finally overall globalization. The reason for choosing these factors is that they best reflect what contributes to globalization for both Iceland and Japan. The observed time used for the comparison is the period from 1990 to 2014 as that period reflects the most prominent changes in both countries in recent history.

Economic Factors

Annual growth of GDP is often used as a basic criterion for gauging a country's economic health. Figure 5 shows the fluctuations of economic growth (as a percentage) of both Iceland and Japan from 1990 to 2014. Visible on the graph is how both countries suffer the effects of the economic downturn of the beginning of the 1990's. In Iceland the period from 1995 to 2001 shows sustained growth following the government's privatization programme and membership in the EEA which facilitated access to European markets. On the other hand, Japan, in the beginning of the decade takes a deep dive and another one 4-5 years later. This might be a result of Japan's excessive loan taking among other factors. Iceland undergoes another period of sustained growth in 2002 – 2007 driven by the Icelandic banks' expansion abroad and their shift of focus from commercial banking to investment banking. Both countries were also hit hard by the 2008 global banking crisis but managed to recover relatively quickly, especially Japan. It is interesting to see that although both countries recovered from the crisis, Japan shows zero growth in 2011 and again in 2014 while Iceland shows moderate economic growth (The World Economy, 2014).

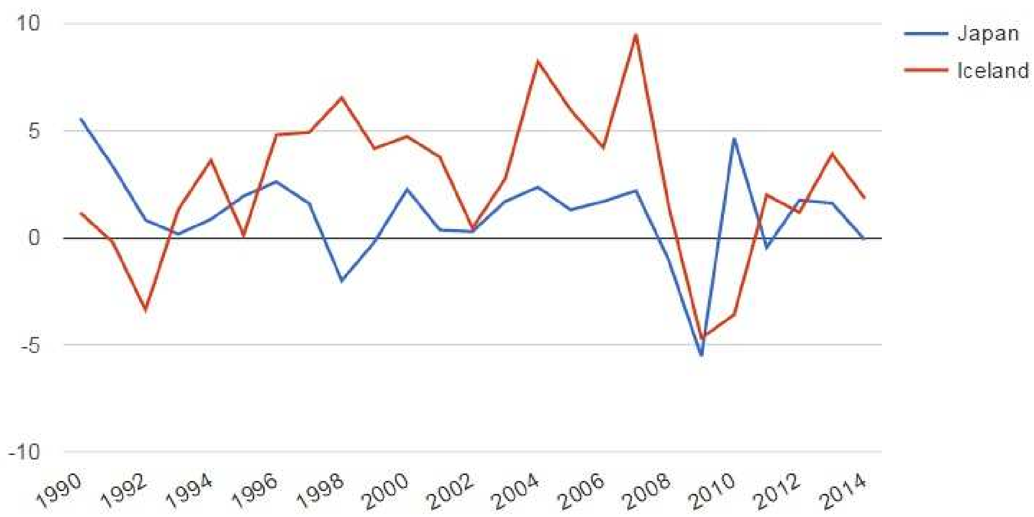

Figure 5 - Economic growth comparison (The Global Economy, 2014)

Direct foreign investment is depicted in figure 6. Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. This figure shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by the GDP (The World Economy, 2014). Figure 6 clearly shows the tremendous increase of Iceland’s direct foreign investment, driven by the bank’s expansion abroad, leading to the collapse of the Icelandic banks in 2008 while Japanese foreign investment remains seemingly constant. It is unsettling to see Iceland starting to move in the same direction that led to the financial crisis. Japan, on the other hand seems to have a fairly stable foreign investment with only minor fluctuations.

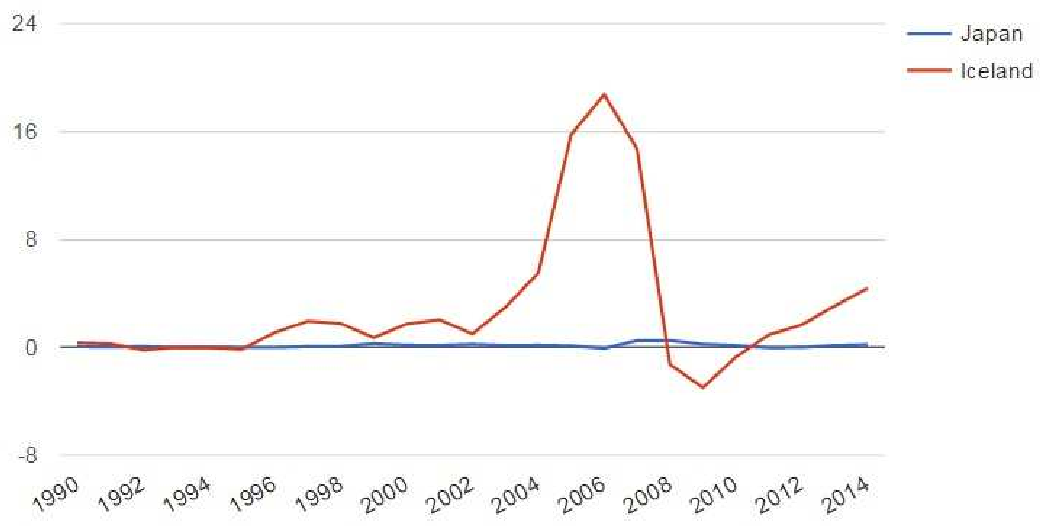

Figure 6 - Direct foreign investment comparison (The Global Economy, 2014)

Figure 7 illustrates the trade balance as a percentage of the country's GDP which represents the external balance of goods and services. As with many of the other factors, the financial crisis seems to play a pivotal role in the balance of import and export. Whereas Japan's import/export ratio seems fairly consistent, Iceland's balance fluctuates greatly. Iceland's hefty deficit starts in 2002 and keeps getting worse until 2006. In 2005-2006 Iceland's trade deficit reached new heights of 16-18% due to strong domestic demand and strong krona. Then imports stabilize and exports start growing again, not the least due to drastic increase in exports of aluminium following the start-up of the Alcoa plant in eastern Iceland and expanded capacity of other aluminium plants. It continues growing during the banking crisis and finally reaches its peak in 2010. Japan trade balance is however, much more consistent. It seems to start declining just a year before the global financial crisis, it then takes a dive, just as Iceland did, in 2010. Japan, being a much larger economy, would need much more drastic changes for the trade balance ratio to change as much as it did in Iceland.

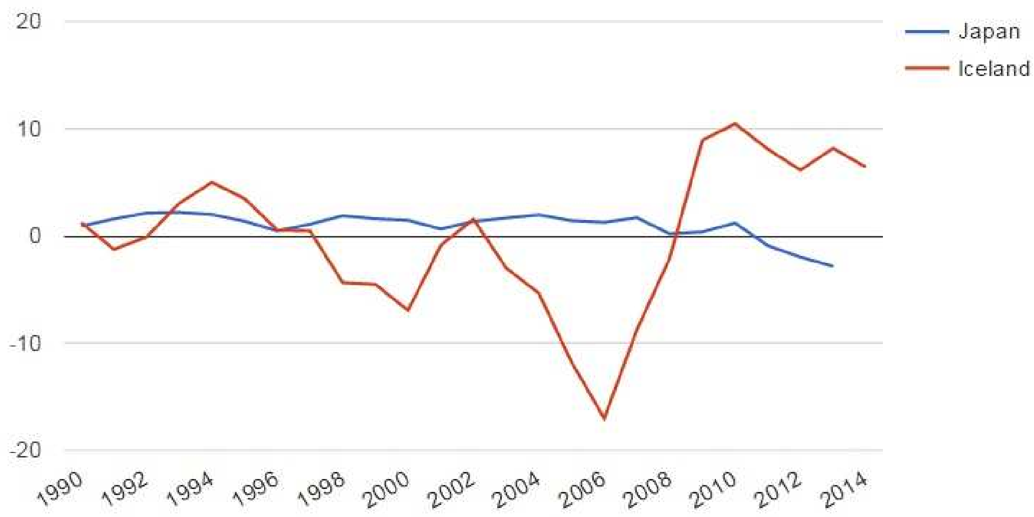

Figure 7 - Trade balance comparison (The Global Economy, 2014)

Cultural Factors

Iceland and Japan both have a very unique cultural image. Both countries are famous for their beautiful landscapes and are very popular tourist locations. Film makers often take inspiration from Japanese culture whereas Icelandic landscape has become renowned as many filmmakers come to Iceland to shoot their movies.

Iceland and Japan both have a lot in common and their fair share of differences. Geographically they are very similar; both are islands located on top of tectonic plate boundaries and are rich with potential renewable energy. Both countries also keep large parts of their nature as protected national parks. While culturally they are quite different.

Iceland is one of the leading countries in the world when it comes to green energy. All energy needs are being covered by renewable energy sources and there are even plans to sell excess energy abroad (Katz, 2013). Interestingly enough, Japan's Mitsubishi and Fujitsu manufacture all the large turbines/motors for the Icelandic hydro power plants, which indicates their own capabilities to build hydro plants. Despite having rich renewable energy resources, Japan does not utilize a large amount of those resources. National parks can be seen as the main hindrance to their utilization. The reason being that a large amount of its untapped renewable energy is located in national parks protected by law to be undisrupted. Today, Japan is one of very few countries in the world that still relies heavily on nuclear energy with over 50 working nuclear power plants and plans to build many more (Nuclear Power in Japan, 2016). Roughly 30-40% of all electrical power in Japan comes from nuclear power plants and the majority (84%) of the fossil fuels required to run the power plants are imported from overseas. Nuclear power plants still pose a significant threat to the Japanese people evident by the 2011 Fukushima disaster where an earthquake damaged a nuclear power plant causing a nuclear meltdown. Politicians now debate the continuation of nuclear power as the general public calls for a change to safer and greener electricity options. Besides nuclear power, Japan uses non-renewable energies such as coal, oil and natural gas, as well as a fair share of its own renewable energy sources. There are quite a few hydroelectric, geothermal and wind power stations spread all over Japan. Despite all these numerous and different energy sources Japan still depends on imports for over 90% of its primary energy needs (Nuclear Power in Japan, 2016). These imports then raise Japan's position on globalization indexes.

Percentage of labour force participation is shown on figure 8. As previously discussed due to Japan's ever aging work force, the percentage of the population fit to work is diminishing. This is of course detrimental to the economy as the income of fewer and fewer people needs to support the whole of the economy. Meanwhile Iceland's work force participation keeps a steady strive with an average of 75%.

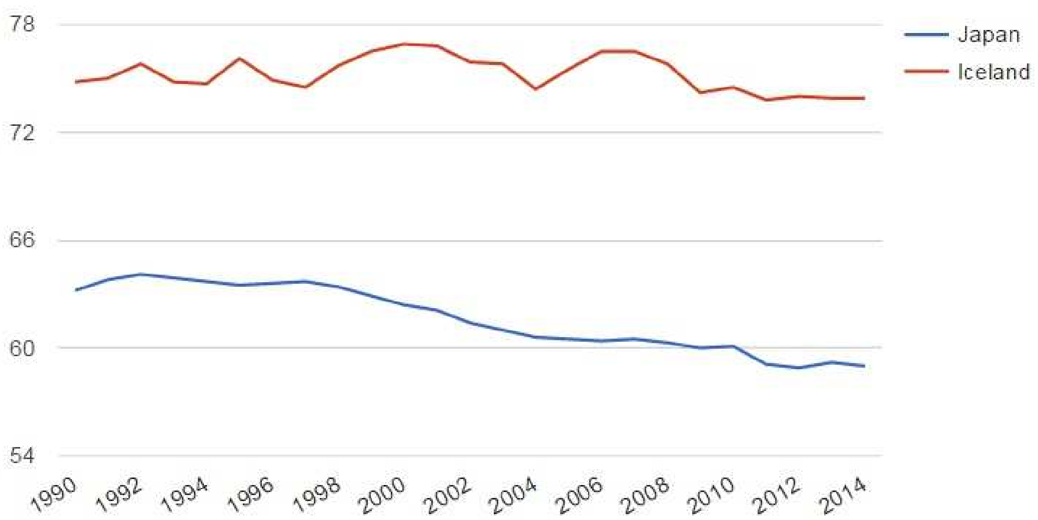

Figure 8 - Labour force participation comparison (The Global Economy, 2014)

Women’s participation in the labour force differs somewhat between Iceland and Japan. In 2014 70% of women in Iceland were actively working whereas only 48.7% of Japanese women were working. As mentioned before, due to cultural norms in Japan, there is a considerably lack of women in the workforce. In recent years these norms have been changing to some extent due to globalization as figure 9 shows. Women now make up 42.6% of the Japanese labour market as compared to 47.7% in Iceland.

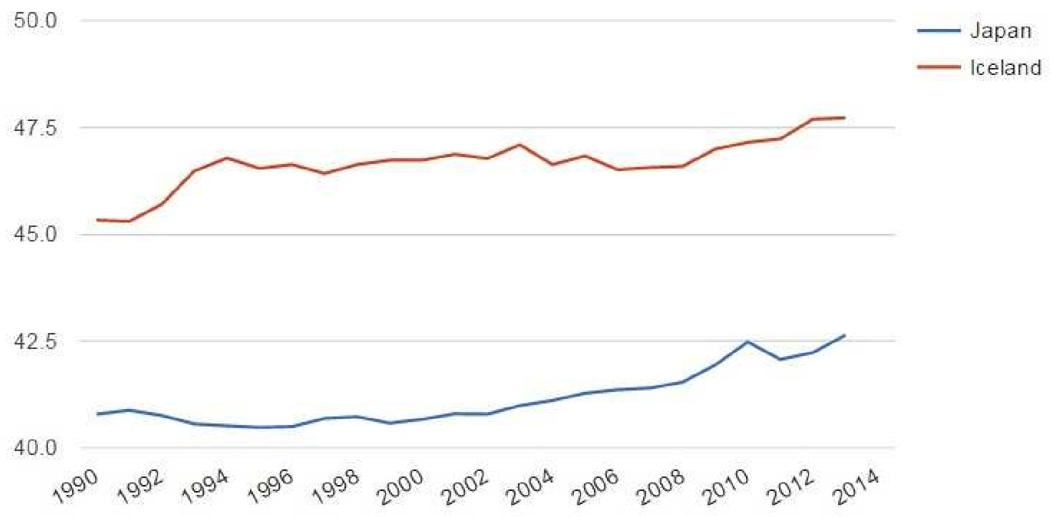

Figure 9 - Percentage of women in the labour force (The Global Economy, 2014)

As Japanese companies aim to be more globalized and diversified, there is still a lack of foreign labour. Due to strict immigration laws a very small percentage (around 1%) of the labour force comes from abroad, most of which are foreigners with specialized education and knowledge not attainable in Japan (Nakamura, 2004). Meanwhile, due to the immense growth of the tourist industry there is an increased need for foreign workers in Iceland. The percentage of foreign labour in Iceland is considerably higher (around 8%) although it fluctuates as in recent years many of the foreign workers, especially from Poland, only come to Iceland for temporary work. Temporary migrant workers are however not bad for the economy as they affect supply more than demand (Skúladóttir, 2006; Ásgeirsdóttir & Haraldsson, 2015).

Globalization

Economic globalization has two dimensions: actual economic flows and restrictions to trade and capital. The sub-index on actual economic flows includes data on trade, FDI, and portfolio investment. The sub-index on restrictions takes into account hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue), and an index of capital controls (The World Economy, 2014). Figure 10 shows how economic globalization in both Iceland and Japan has grown similarly at a fairly constant rate. Although visible, Iceland's gigantic fluctuations in FDI do not seem to have had as much as an effect as previously thought.

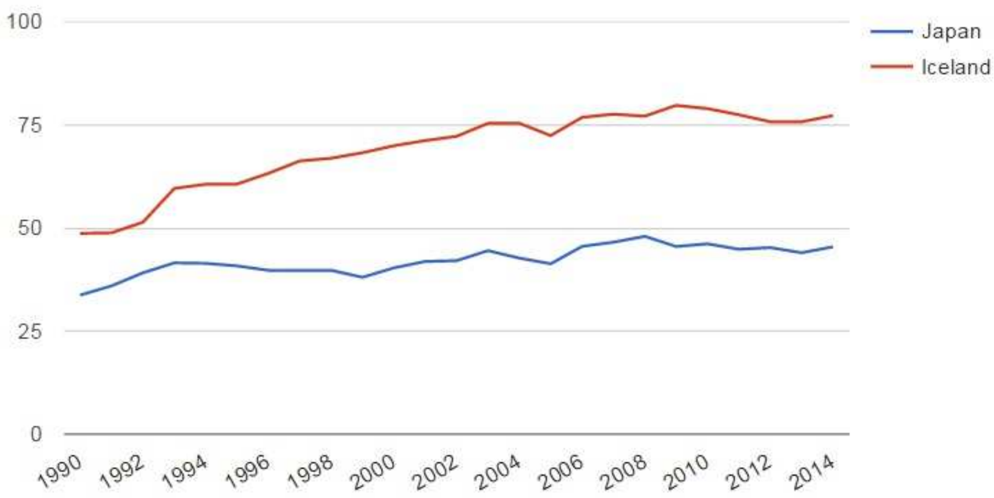

Figure 10 - Economic globalization comparison (The Global Economy, 2014)

Social globalization has developed quite differently in Iceland and in Japan. As figure 11 shows there was a considerable gap between Iceland and Japan until Japan took a giant leap in 2008. In recent years, social globalization has been dwindling in Iceland and increasing in Japan to the extent that the two countries have a very similar score. Social globalization is influenced by three dimensions: personal contacts, information flows, and cultural proximity. A frequently used indicator of cultural proximity is the number of McDonald's outlets per capita (The World Economy, 2014). That is not possible in this case however as currently the number of McDonald's outlets in Iceland is zero. This might contribute to Iceland's drop in social globalization after McDonalds left Iceland in 2009 following a rise in inflation (McDonald's hættir á Íslandi, 2009). Interestingly enough there are at least 15 sushi restaurants in the capital area of Iceland with a few of ranking highly on lists of the best restaurants in Reykjavík (TripAdvisor, 2016).

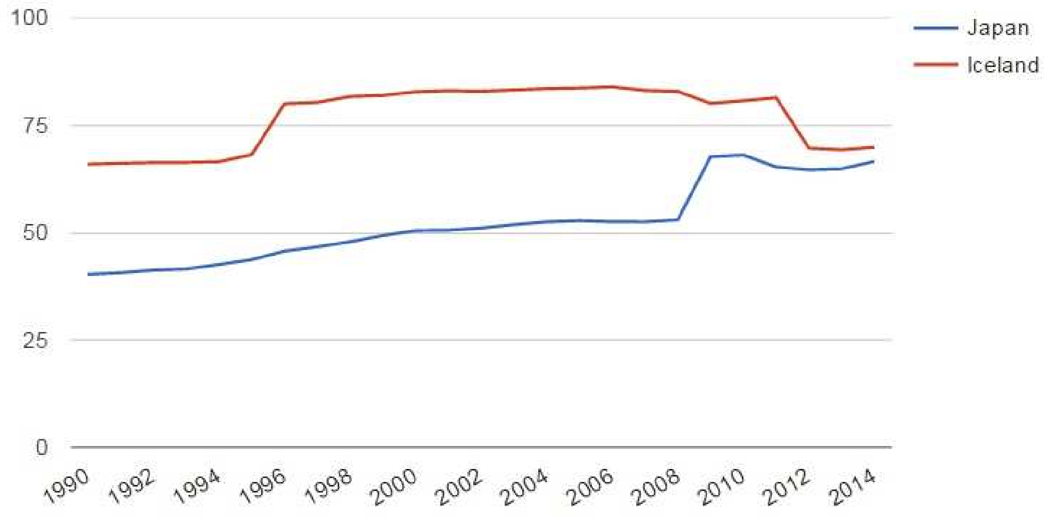

Figure 11 - Social globalization comparison (The Global Economy, 2014)

Political globalization is determined by the number of international organizations in the country as well as number of embassies and high commissioners. Other factors include number of UN peace missions a country participated in, and the number of treaties signed between two or more states. The political globalization of Japan has been significantly more stable than that of Iceland's, perhaps due to Iceland's prolonged debate on accession to the EU.

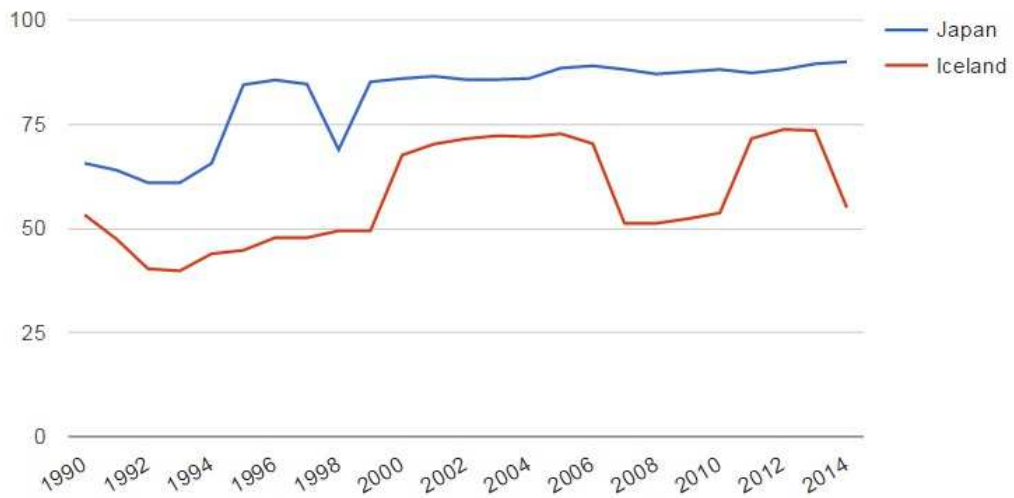

Figure 12 - Political globalization comparison (The Global Economy, 2014)

Finally, overall globalization of both countries is shown here in figure 13 which combines the economic, social, and political dimensions of globalization. This figure most clearly reflects the degree of integration of these countries enjoy with the rest of the world. It is interesting to see how Japan, since the beginning of the 21st century, has been climbing progressively to become more global, whereas Iceland's globalization has been volatile. There is a similarity between globalization and economic growth in Iceland where both seem to fluctuate similarly. It is difficult to determine why Iceland's globalization seems to grind to a halt in 2003 and again in 2011 after Iceland has recovered from the financial crisis. The main contributing factors are both social- and economic globalization as they both behave similarly whereas economic globalization does not.

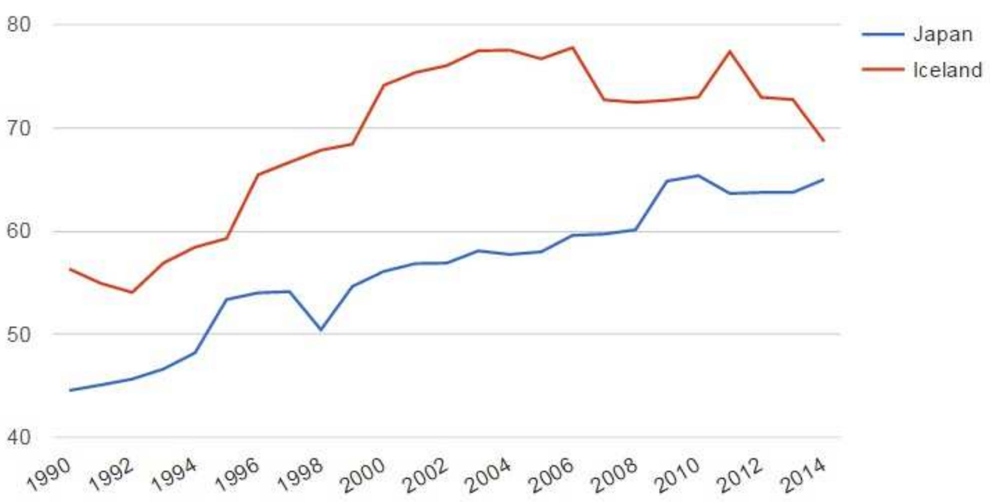

Figure 13 - Overall globalization comparison (The Global Economy, 2014)

Conclusion

Analysing these two countries in terms of globalization it becomes evident that they are considerably more different than they are similar. Due to cultural factors shaping the development of these two countries, completely different influences resulted in their current situations. Globalization is therefore very dependent on culture. Whereas globalization has not been kind to every country in the world, it is undeniable that globalization has boosted the economies of both Iceland and Japan. Both of these countries lack natural resources and have therefore benefitted from increased international trade enabled by globalization. It can however be debated that globalization is partially to blame for the financial crisis in Iceland in 2008, where globalization permitted the excessive expansion of the Icelandic banks causing them to crash in the financial crisis. Foreign direct investment seems to correlate with the crash and one can speculate how FDI will affect these two countries in the future and if Japan will ever face something akin to what Iceland went through.

It is interesting to note that despite their cultural differences, different course of development and contrasting approaches to increased globalization, Iceland and Japan now possess a very similar degree of globalization. In addition, it is clear that the 2008 global financial crisis and the collapse of the Icelandic banking system had a much greater effect on Iceland’s globalization than previously thought. The crisis in 2008 immensely affected almost every factor that contributes to globalization.

Even though the course to globalization seems to be heavily dependent on culture, as is evident in the case of both Iceland and Japan, some cultural elements do not seem to matter. For instance, these two countries’ understanding and knowledge of the English language differs expressively, but that does not seem to affect international relations. Other cultural aspects matter much more. Whether a country is considered collectivistic or individualistic appears to be of great importance on the course to globalization. This especially true for Iceland and Japan as they are on opposite ends of the spectrum.

With a booming tourist industry, Iceland is now recovering from the bank crisis but it is unclear how the removal of the capital controls will affect the economy. Iceland was severely affected by the crisis and has since been experiencing declining globalization after 2010. The reason being a step back in both social- and political globalization. Furthermore, one can speculate if the volatile Krona will act as a hindrance to Iceland's globalization in the future.

Globalization has resulted in decisive change to Japanese society, changes to how the Japanese do business. However, the result of applying western business ideologies to Japanese culture has not been the 'Americanization' of Japanese business methods and approaches, but rather the 'Japanization' of American business practices. The Japanese are extremely adept at taking the ideas of others and moulding them to fit their own culture. Globalization has definitely affected Japan more than Iceland as it has forced Japan to change fundamental traditions of how the Japanese do business. Japan still needs to work on furthering equality if it is to become more globalized. The case of Nissan's success story is an example of how the Japanese need to attract foreign human resources, foreign capital and adapt foreign business practices.

Globalization affects countries in both good ways and bad. In Iceland globalization has contributed to increased trade but when going to the extremes it can hurt, as in the case of the Icelandic banks in the run-up to their collapse in 2008. In Japan globalization forced companies to change in order to stay competitive but it might not be enough to save Japan's aging population. Due to Japan's lack of natural resources, they need to import almost all of their energy needs, which in turn boosts globalization. Which implies that a high globalization score is not always desirable. Comparing these two countries has revealed that globalization is not always advantageous and when countries globalize they must do it at a moderate pace. Globalize too fast and risk a financial crisis like Iceland and globalize too slow and risk losing competitiveness just a Japan nearly did.

This thesis is limited by not being able to determine the exact causes of the changes in globalization each year and the intricate effects they have. For further study it would be interesting to look at the countries scoring the highest on the globalization indexes and see if there is something that Iceland and Japan could gain from adopting their methods.

Bibliography

Ásbergsson, J. (n.d.). *Export Trade*. Retrieved from http://icelandexport.is/icelandexport2/english/articles/export_trade/

Ásgeirsdóttir, S. & Haraldsson, R.H. (2015). *Tölfræðilegar upplýsingar um erlenda ríkisborgara og innflytjendur á Íslandi*. Ísafjörður: Fjölmenningarsetur.

Bajpai, P. (n.d.). *The World's Top 10 Economies*. Retrieved from http://www.investopedia.com/articles/investing/022415/worlds-top-10-economies.asp

BBC World Service Poll. (2007, March 6). *Israel and Iran Share Most Negative Ratings in Global Poll*. Retrieved from http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/06_03_07_perceptions.pdf

Befu, H. & Guichard-Anguis, S. (2002). *Globalizing Japan: Ethnography of the Japanese presence in Asia, Europe, and America*. New York, NY: Routledge.

Brooks, I. Weatherston, J. & Wilkinson, G. (2010). *The International Business Environment: Challenges and Changes*. New Jersey, NJ: Financial Times Press.

C.W. (2015, Jun 10). Iceland's capital-controls saga. *The Economist.* Retrieved from http://www.economist.com/blogs/economist-explains/2015/06/economist-explains-8

Central Bank of Iceland. (2007, March). The impact of foreign labour on inflation. *Monetary Bulletin*, pp 37-38. Retrieved 27.04.16 from http://www.cb.is/lisalib/getfile.aspx?itemid=5321

Central Bank of Iceland. (2007, November). Globalisation and monetary policy in Iceland. *Monetary Bulletin*, pp 22-25. Retrieved from: http://www.theglobaleconomy.com/Iceland/kof_overall_glob/

Central Intelligence Agency. (2016). Country Comparisons – Public debt. *In The world factbook*. Retrieved from https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html

Chartier, D. (2011). *The End of Iceland's Innocence: The Image of Iceland in the Foreign Media during the Financial Crisis*. Ottawa: University of Ottawa Press.

Coffey, D. & Tomlinson, P. R. (2003). Globalization, Vertical Relations, and the J-Mode Firm. *Journal of Post Keynesian Economics*, 26(1), 117–144.

Disappointing levels of English. (2015, March 28). *The Japan Times*. Retrieved from http://www.japantimes.co.jp/opinion/2015/03/28/editorials/disappointing-levels-english/#.Vyolo4SyNBd

Eliason, M. (2014, July 15). The Current State of the Icelandic Economy. *Iceland Magazine*. Retrieved from http://icelandmag.visir.is/article/current-state-icelandic-economy

European Union. (n.d.). *EU Relations with Iceland*. Retrieved from http://www.eeas.europa.eu/iceland/index_en.htm

Fackler, M. (2007, August 6). Career Women in Japan Find a Blocked Path. *New York Times*. Retrieved from http://www.nytimes.com/2007/08/06/world/asia/06equal.html?_r=2

Hanouz, M.D., Geiger, T. & Doherty, S. (Eds.). (2014). *Global Enabling Trade Report 2014*. Geneva, Switzerland: World Economic Forum. Retrieved from http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf

Hofstede, G. (2001). *Culture's Consequences: comparing values, behaviors, institutions, and organizations across nations (2nd ed.).* California, CA: Thousand Oaks.

Hidalgo, C.A. & Simoes, A.J.G. (2011). The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.

Hilmarsson-Dunn, A. & Kristinsson, A.P. (2010) The language situation in Iceland. *Current Issues in Language Planning 11*, 207-276.

Hitt, A.M. Tihanyi, L. Miller, T. Connelly, B.L. (2006). International Diversification: Antecedents, Outcomes, and Moderators. *Journal of Management* 32(6): 831–867.

Iceland and Japan have much in common. (2014, November 13). Ministry for Foreign Affairs. Retrieved from https://www.mfa.is/news-and-publications/nr/8303

Indexmundi. (2013). *Japan DGP – real growth rate.* Retrieved from http://www.indexmundi.com/g/g.aspx?c=ja&v=66

Ingason, V. (Eds.). (2012). *The Icelandic Economic Situation: Status Report.* Reykjavík, Iceland: Iceland Chamber of Commerce.

Irwin, N. (2015, September 16). Raising Rates Too Soon: The Mistake Central Banks Keep Making. *The New York Times*. Retrieved from http://www.nytimes.com/2015/09/16/upshot/central-banks-keep-making-the-same-mistake.html

Jacobs, R. (2013, October 29). Why So Many Icelanders Still Believe in Invisible Elves. *The Atlantic*. Retrieved from http://www.theatlantic.com/international/archive/2013/10/why-so-many-icelanders-still-believe-in-invisible-elves/280783/

Katz, C. (2013, October 03). *Iceland Seeks to Cash In On Its Abundant Renewable Energy*. Retrieved from http://e360.yale.edu/feature/iceland_seeks_to_cash_in_on_its_abundant_renewable_energy/2697/

Keiretsu. (n.d.). Investor Glossary. Retrieved from http://www.investorglossary.com/keiretsu.html

Kreitner, R. (2007). *Management*. New York, NY: Houghton Mifflin Company.

Krueger, A.O. (2000). *The WTO as an International Organization*. Chicago, IL: University of Chicago Press.

Kuchikomi. (2012, January 27). *Japan losing its manufacturing edge to South Korea.* Retrieved from http://www.japantoday.com/category/kuchikomi/view/japan-losing-its-manufacturing-edge-to-south-korea

Lawrence, R.Z. & Hanouz, M.D. (Eds.). (2008). *Global Enabling Trade Report 2008*. Geneva, Switzerland: World Economic Forum. Retrieved from http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2008.pdf

Lawrence, R.Z., Hanouz, M.D., Doherty, S. & Moavenzadeh, J. (Eds.). (2010). *Global Enabling Trade Report 2010*. Geneva, Switzerland: World Economic Forum. Retrieved from http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2010.pdf

McDonald's hættir á Íslandi*.* (2009, October 26). *Vísir*. Retrieved from http://www.visir.is/mcdonalds-haettir-a-islandi/article/2009326438990

Melville, I. (1999). *Marketing in Japan*. Oxford, UK: Butterworth-Heinemann.

Meyer, M.W. (1993). *Japan: A Concise History*. Lanham, MD: Rowman & Littlefield.

Mintzberg, H. (2000). *The Rise and Fall of Strategic Planning*. New York, NY: Pearson Education.

Moghadam, V. (2015). Chapter 7, The Specter That Haunts the Global Economy?, pages 103-110, in Steger, M. *The Global Studies Reader*. New York, NY: Oxford University Press.

Nakamura, M. (2004). *Changing Japanese Business, Economy and Society Globalization of Post-Bubble Japan*. New York, NY: Palgrave Macmillian.

Nakanishi, M. (1981). Marketing Developments in Japan. *Journal of Marketing*, 45(3), 206–208.

Nathan, J. (2004). *Japan Unbound.* New York, NY: Houghton Mifflin Company.

Nuclear Power in Japan. (2016, March 29). *World Nuclear Association*. Retrieved from http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclear-power.aspx

Osada, M., Ojima, M., Kurachi, Y., Miura, K. & Kawamoto, T. (2016). *Economic Impact of the Tokyo 2020 Olympic Games*. Bank of Japan. Retrieved from https://www.boj.or.jp/en/research/brp/ron_2016/data/ron160121b.pdf

Osland, J.S. (2003). Broadening the Debate: The Pros and Cons of Globalization. *Journal of Management Inquiry*, 2(2), 137-154.

Pew Research Center. (2015). *Global Attitudes Spring 2015 Survey*. Retrieved from http://www.pewglobal.org/2015/06/23/spring-2015-survey/

Rankin, J. (2015, June 9). Iceland to lift capital controls to help boost economy. *The Guardian*. Retrieved from http://www.theguardian.com/world/2015/jun/08/iceland-to-lift-capital-controls-to-help-boost-economy

Scholte, J. A. (2005). *Globalization: a Critical Introduction*. Basingstoke: Palgrave Macmillan

Skaptadóttir, U.D. & Loftsdóttir, K. (2009). Cultivating Culture? Images of Iceland, Globalization and Multicultural Society. In: *Images of the North: Histories, Identities, Ideas*. Sverrir Jakobsson (eds.). New York, NY: Rodopi

Skaptadóttir, U.D. (2004). Responses to global transformations: gender and ethnicity in resource-based localities in Iceland. *Polar Record*, 40, 261-267.

Skúladóttir, Á. (2007, March 01). Foreign Workers in Iceland – Living on the fringe of society. Retrieved from http://www.nordiclabourjournal.org/nyheter/nyheter-2006/foreign-workers-in-iceland-2014-living-on-the-fringe-of-society

Statistics Iceland. (2015). *Export and export production of marine products 2015* Retrieved from http://statice.is/publications/

Stiglitz, J.E. (2006). *Making Globalization Work*. New York, NY: W.W. Norton & Company.

Sun, L. (2011) *Impact of Globalization on Small Businesses*. Retrieved from http://www.businessdictionary.com/article/583/impact-of-globalization-on-small-businesses/

Swiss Federal Institute of Technology Zurich. (2013). *2013 KOF Index of Globalization*. Retrieved from http://globalization.kof.ethz.ch/media/filer_public/2013/03/25/method_2013.pdf

Tan, J.K. (2013, June 13). *Japanese Companies are Reinventing their Industrial Models to Regain Full Competitiveness*. Retrieved from http://www.rolandberger.asia/news/local_news/2013-06-18-Japanese_companies_reinventing_industrial_models.html

The Global Economy. (2014). *Compare Countries*. Retrieved from http://www.theglobaleconomy.com/compare-countries/

The World Bank. (2016, April 11). *GDP ranking*. Retrieved from http://data.worldbank.org/data-catalog/GDP-ranking-table

Þórarinsdóttir, H. (2001, September 11). *Hnattvæðing og íslensk þjóðarímynd. Tveir pólar á sama ás [Globalization and Icelandic Identity. Two poles of the same axis].* Address. Nordic House. Reykjavik.

TripAdvisor. (2016). The 10 Best Reykjavik Restaurants 2016. Retrieved from https://www.tripadvisor.com/Restaurants-g189970-Reykjavik_Capital_Region.html

Urata, S. (2005, July, 25). *Japan Needs to Boost its Inward Foreign Direct Investment.* Retrieved from http://www.rieti.go.jp/en/columns/a01_0175.html

Wade, R.H. (2004). Is Globalization Reducing Poverty and Inequality? *World Development*, 32(4), 567-589.

Witkowski, T.H. (2014). Kasuo Usui. Marketing and Consumption in Modern Japan. *Journal of Marketing*. 32(2): 274-276.

World Economic Forum. (n.d.). *Interview with Tech Pioneer Ossur*. Retrieved from http://web.worldbank.org/archive/website00818/WEB/OTHER/INTER-42.HTM