Global Business Today 6e

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Chapter 1

Globalization

Introduction

In the world economy today, we see

- a shift away from self-contained national economies with high barriers to cross-border trade and investment
- a move toward a more integrated global economic system with lower barriers to trade and investment
- about $3 trillion in foreign exchange transactions taking place everyday
- over $12 million of goods and some $3 trillion of services being sold across national borders
- the establishment of international institutions

Introduction

The effects of this trend can be seen

- in the cars people drive
- in the food people eat
- in the jobs where people work
- in the clothes people wear
- in many other ways

What Is Globalization?

Question: What is globalization?

- Globalization refers to the trend towards a more integrated global economic system

Two key facets of globalization are:

- the globalization of markets
- the globalization of production

Classroom Performance System

The trend away from distinct national economic units and toward one huge global market is known as

a) Internationalization

b) Economic integration

c) Globalization

d) Privatization

The Globalization of Markets

- The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace
- In many markets today, the tastes and preferences of consumers in different nations are converging upon some global norm
- Examples of this trend include Coca Cola, Starbucks, Sony PlayStation, and McDonald's hamburgers

The Globalization of Production

- The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (labor energy, land, and capital)
- The goal for companies is to lower their overall cost structure or improve the quality or functionality of their product and gain competitive advantage
- Examples of companies doing this include Boeing and Vizio

The Emergence of Global Institutions

Several global institutions have emerged to

- help manage, regulate, and police the global market place
- promote the establishment of multinational treaties to govern the global business system

The Emergence of Global Institutions

Notable global institutions include

- the World Trade Organization (WTO) which is responsible for policing the world trading system and ensuring that nations adhere to the rules established in WTO treaties
  - In 2008, 151 nations accounting for 97% of world trade were members of the WTO
- the International Monetary Fund (IMF) which maintains order in the international monetary system

The Emergence of Global Institutions

- the World Bank which promotes economic development
- the United Nations (UN) which maintains international peace and security, develops friendly relations among nations, cooperates in solving international problems and promotes respect for human rights, and is a center for harmonizing the actions of nations

Classroom Performance System

Which of the following is not an example of a global institution?

a) The Federal Reserve

b) The International Monetary Fund

c) The World Bank

d) The World Trade Organization

Drivers of Globalization

Question: What is driving the move toward greater globalization?

- There are two macro factors underlying the trend toward greater globalization

1. declining trade and investment barriers
2. technological change

Classroom Performance System

Coca-Cola, Sony Playstations, and McDonald's hamburgers are all examples of

a) American products

b) Global products

c) Industrial products

d) National products

Declining Trade and Investment Barriers

- International trade occurs when a firm exports goods or services to consumers in another country
- Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country
- During the 1920s and 1930s, many nations erected barriers to international trade and FDI to protect domestic industries from foreign competition

Declining Trade and Investment Barriers

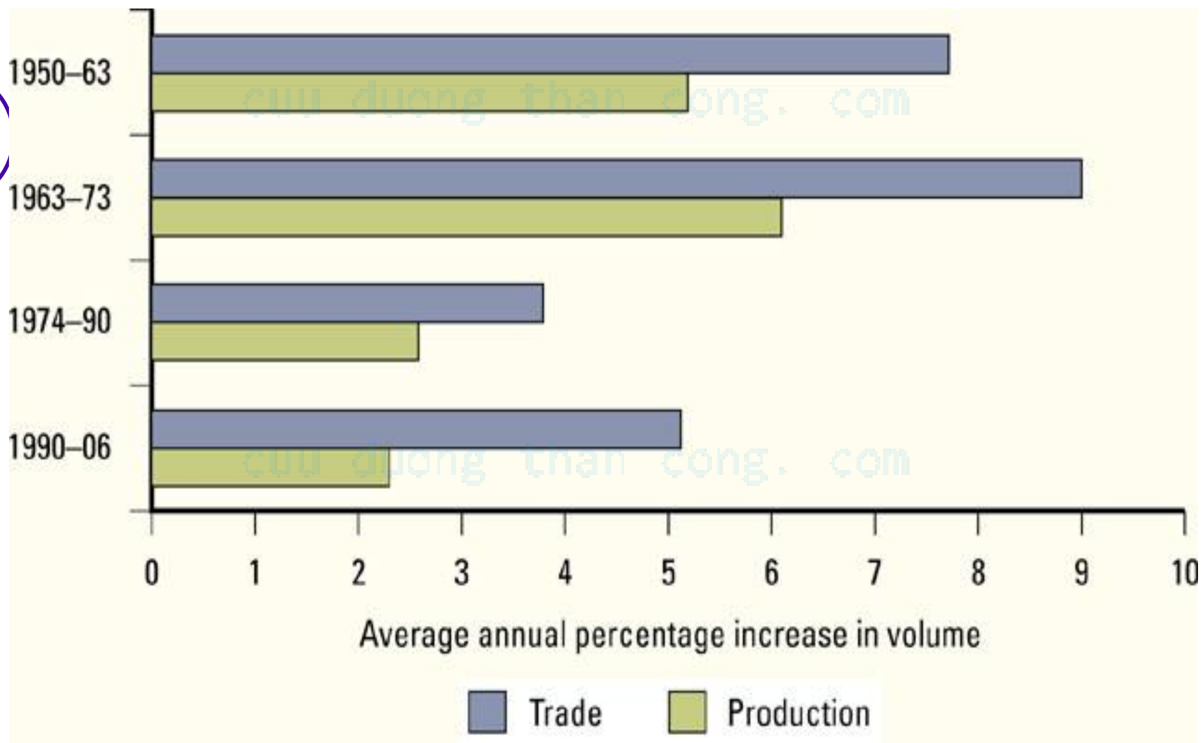
- After WWII, advanced Western countries began removing trade and investment barriers
- Under GATT (the forerunner of the WTO), over 100 nations negotiated further decreases in tariffs and made significant progress on a number of non-tariff issues
- Under the WTO, a mechanism now exists for dispute resolution and the enforcement of trade laws, and there is a push to cut tariffs on industrial goods, services, and agricultural products

Declining Trade and Investment Barriers

- Lower trade barriers enable companies to view the world as a single market and establish production activities in optimal locations around the globe
- This has led to an acceleration in the volume of world trade and investment since the early 1980s

Declining Trade and Investment Barriers

Growth in World Merchandise Trade and Production, 1950 - 2006



Classroom Performance System

Which organization provides a mechanism for dispute resolution and the enforcement of trade laws?

a) The UN

b) The IMF

c) The WTO

d) The World Bank

The Role of Technological Change

- The lowering of trade barriers made globalization of markets and production a theoretical possibility, technological change made it a tangible reality
- Since World War II, there have been major advances in communication, information processing, and transportation

The Role of Technological Change

- The development of the microprocessor has lowered the cost of global communication and therefore the cost of coordinating and controlling a global organization

- Web-based transactions have grown from virtually zero in 1994 to $250 billion in 2007 in the U.S. alone, and Internet usage is up from fewer than 1 million users in 1990 to 1.3 billion users in 2007

- Commercial jet aircraft and super freighters and the introduction of containerization have greatly simplified trans-shipment from one mode of transport to another

The Role of Technological Change

Question: What are the implications of technological change for the globalization of production?

- Lower transportation costs make a geographically dispersed production system more economical and allow firms to better respond to international customer demands

The Role of Technological Change

Question: What are the implications of technological change for the globalization of markets?

- Low cost communications networks have helped create electronic global marketplaces
- Low cost transportation have enabled firms to create global markets, and have facilitated the movement of people from country to country promoting a convergence of consumer tastes and preferences

The Changing Demographics of the Global Economy

In the 1960s:

- the U.S. dominated the world economy and the world trade picture
- the U.S. dominated world FDI
- U.S. multinationals dominated the international business scene
- about half the world-- the centrally planned economies of the communist world-- was off limits to Western international business

Today, much of this has changed.

The Changing World Output and World Trade Picture

- In the early 1960s, the U.S. was the world's dominant industrial power accounting for about 40.3% of world manufacturing output
- By 2007, the U.S. accounted for only 20.7%
- Other developed nations experienced a similar decline

The Changing World Output and World Trade Picture

- Rapid economic growth is now being experienced by countries such as China, Thailand, and Malaysia
- Further relative decline in the U.S. share of world output and world exports seems likely
- Forecasts predict a rapid rise in the share of world output accounted for by developing nations such as China, India, Indonesia, Thailand, and South Korea, and a decline in the share by industrialized countries such as Britain, Japan, and the United States
- So companies may find both new markets and new competitors in the developing regions of the world

The Changing World Output and World Trade Picture

The Changing Demographics of World GDP and Trade

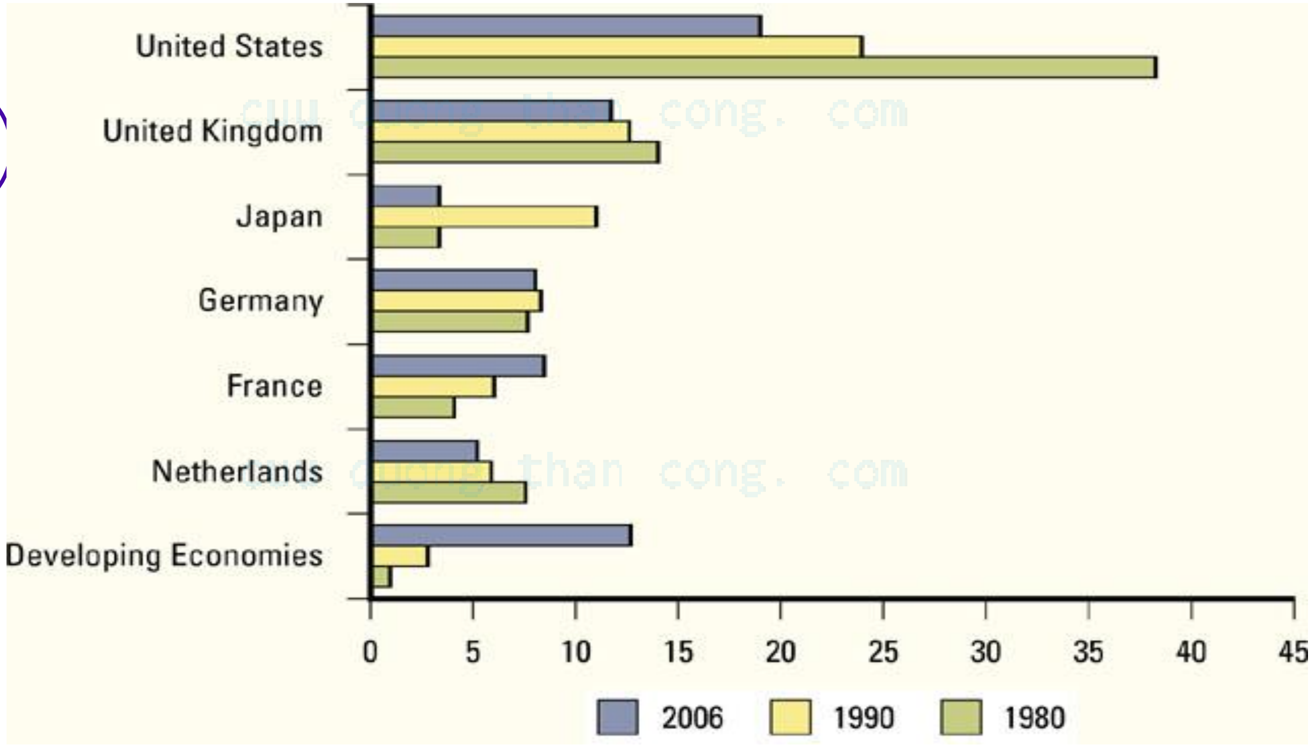
Country	Share of World Output, 1963	Share of World GDP, 2007	Share of World Exports, 2006
United States	40.3%	20.7	9.8%
Germany	9.7	4.2	8.9
France	6.3	3.1	4.3
Italy	3.4	2.7	3.5
United Kingdom	6.5	3.2	4.6
Canada	3.0	1.9	3.1
Japan	5.5	6.5	5.0
China	NA	11.5	7.2

The Changing Foreign Direct Investment Picture

- The share of world output generated by developing countries has been steadily increasing since the 1960s
- The stock of foreign direct investment (total cumulative value of foreign investments) generated by rich industrial countries has been on a steady decline
- There has been a sustained growth in cross-border flows of foreign direct investment
- The largest recipient of FDI has been China

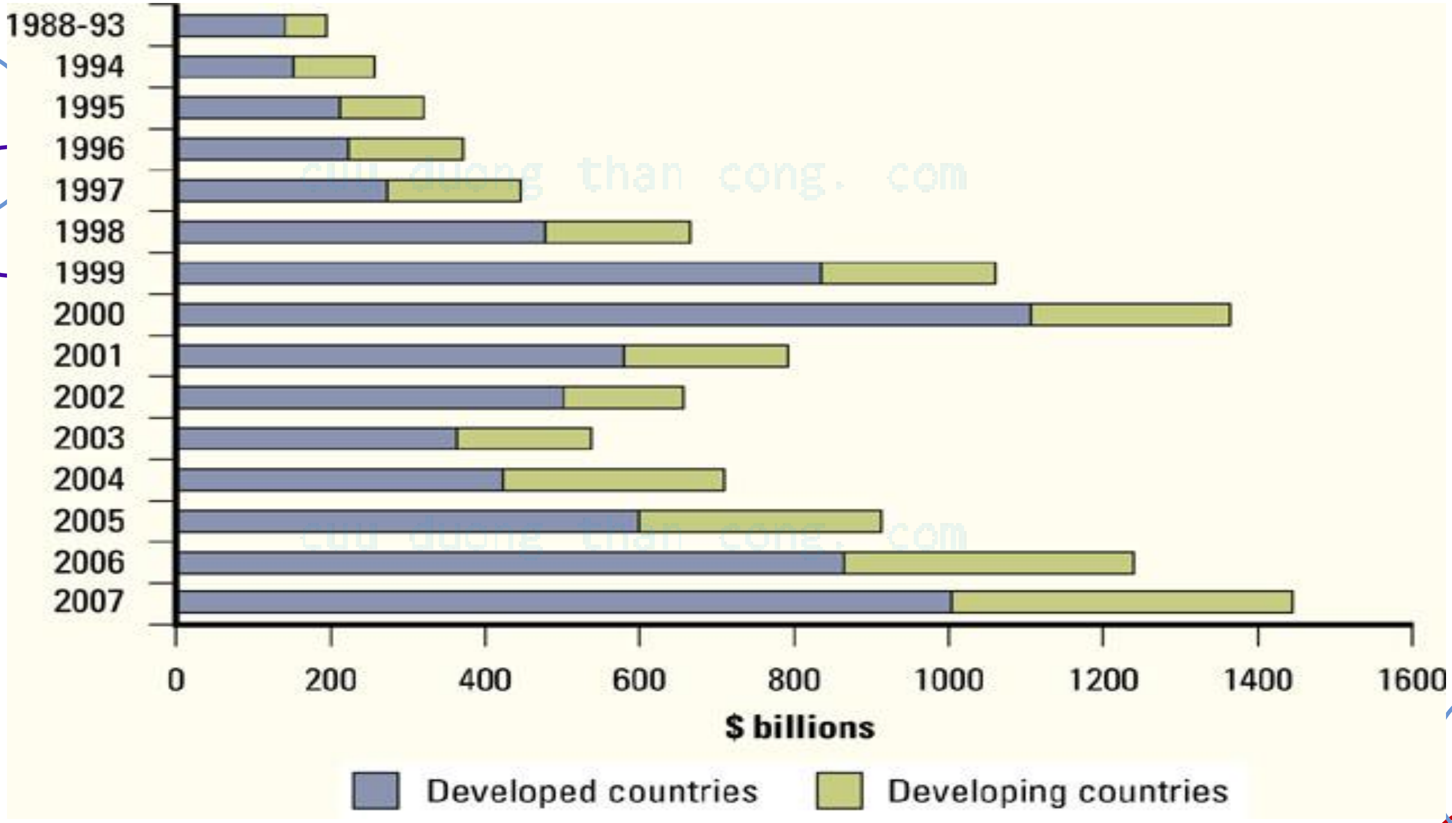
The Changing Foreign Direct Investment Picture

Percentage Share of Total FDI Stock, 1980 - 2006



The Changing Foreign Direct Investment Picture

FDI Inflows, 1988 - 2007



Classroom Performance System

Which of the following statements is true?

a) The U.S. has been accounting for an increasing share of world trade in recent years

b) The U.S. has been accounting for an increasing share of world foreign direct investment in recent years

c) The U.S. has been accounting for an increasing share of world output in recent years

d) The share of world trade accounted for by China has been increasing in recent years

The Changing Nature of the Multinational Enterprise

- A multinational enterprise is any business that has productive activities in two or more countries
- Since the 1960s,
  - there has been a rise in non-U.S. multinationals
  - there has been a rise in mini-multinationals

The Changing Nature of the Multinational Enterprise

- The globalization of the world economy has resulted in a decline in the dominance of U.S. firms in the global marketplace
  - In 1973, 48.5 % of the world's 260 largest MNEs were U.S. firms
  - By 2006, just 24 of the world's 100 largest non-financial MNEs were from the U.S., 13 were from France, 12 from Germany, 12 were from Britain, and 9 were from Japan, and 7 of the world's largest 100 MNEs were from developing economies

The Changing Nature of the Multinational Enterprise

- While most international trade and investment is conducted by large MNEs, many small and medium-size firms are expanding internationally
  - The Internet has made it easier for many smaller companies to build international sales

The Changing World Order

- Today, many markets that had been closed to Western firms are open
  - The collapse of communism in Eastern Europe has created a host of export and investment opportunities
  - Economic development in China has created huge opportunities despite continued Communist control
  - Free market reforms and democracy in Latin America have created opportunities for new markets and new sources of materials and production

The Global Economy of the Twenty-First Century

- A more integrated global economy presents new opportunities for firms, but it can also result in political and economic disruptions that may throw plans into disarray

The Globalization Debate

Question: Is the shift toward a more integrated and interdependent global economy a good thing?

- Many experts believe that globalization is promoting greater prosperity in the global economy, more jobs, and lower prices for goods and services
- Others feel that globalization is not beneficial

Antiglobalization Protests

Question: What are the concerns of critics of globalization?

- Anti-globalization protesters now turn up at almost every major meeting of a global institution
- Protesters fear that globalization is forever changing the world in a negative way

Globalization, Jobs, and Income

- Critics of globalization worry that jobs in advanced economies are being lost to low-wage nations
- Supporters of globalization disagree, claiming that the benefits of free trade outweigh its costs
  - While some jobs may be lost, the economy as a whole is better off
- Supporters argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently, and that in doing so, *all* countries will gain

Globalization, Labor Policies, and the Environment

- Critics of globalization argue that that free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries with lax environmental and labor regulations
- Supporters of free trade point out that tougher environmental regulation and stricter labor standards go hand in hand with economic progress and that as countries get richer as a result of globalization, they raise their environmental and labor standards
  - Free trade does not lead to more pollution and labor exploitation, it leads to less

Globalization and National Sovereignty

- Critics of globalization worry that economic power is shifting away from national governments and toward supranational organizations such as the WTO, the European Union (EU), and the UN
- Supporters of globalization argue that the power of these organizations is limited to what nation-states collectively agree to grant
  - The organizations must be able to persuade members states to follow certain actions
  - Without the support of members, the organizations have no power

Globalization and the World's Poor

- Critics of globalization argue that the gap between rich and poor has gotten wider and that the benefits of globalization have not been shared equally
- Supporters of free trade suggest that the actions of governments have made limited economic improvement in many countries
  - Many of the world's poorest nations are under totalitarian regimes, suffer from endemic corruption, have few property rights, are involved in war, and are burdened by high debt

Managing in the Global Marketplace

Question: What does the shift toward a global economy mean for managers within an international business?

- Managing an international business (any firm that engages in international trade or investment) differs from managing a domestic business in four key ways

Managing in the Global Marketplace

1. Countries differences require companies to vary their practices country by country
2. Managers face a greater and more complex range of problems
3. International companies must work within the limits imposed by governmental intervention and the global trading system
4. International transactions require converting funds and being susceptible to exchange rate changes

Critical Discussion Question

1. Describe the shifts in the world economy over the last 30 years. What are the implications of these shifts for international businesses based in Great Britain? North America? Hong Kong?

Critical Discussion Question

2. "The study of international business is fine if you are going to work in a large multinational enterprise, but it has no relevance for individuals who are going to work in smaller firms." Evaluate this statement.

Critical Discussion Question

3. How have changes in technology contributed to the globalization of markets and of production? Would the globalization of production and markets have been possible without these technological changes?

Critical Discussion Question

4. "Ultimately, the study of international business is no different from the study of domestic business. Thus, there is no point in having a separate course on international business." Evaluate this statement.

Critical Discussion Question

5. How might the Internet and the associated World Wide Web affect international business activity and the globalization of the world economy?

Critical Discussion Question

6. If current trends continue, China may emerge as the world's largest economy by 2020. Discuss the possible implications of such a development for:

- The world trading system.
- The world monetary system.
- The business strategy of today's European and U.S. based global corporations.
- Global commodity prices.

Critical Discussion Question

7. Read the Country Focus “Outsourcing American Healthcare,” then answer the following questions:

a) A decade ago the idea that medical procedures might move offshore was unthinkable. Today it is a reality. What trends have facilitated this process?

b) Is the globalization of health care good or bad for patients?

c) Is the globalization of health care good or bad for the American economy?

d) Who might benefit from the globalization of health care? Who might lose?

e) Do you think that the U.S. government should restrict the outsourcing of medical work to developing nations? What if physicians in those countries are certified by U.S. medical institutions?