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# CHAPTER ONE

## Globalization and International Linkages

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# Chapter 1: Globalization and International Linkages

- The specific objectives of this chapter are:
  1. **ASSESS** the implications of globalization for countries, industries, firms, and communities.
  2. **REVIEW** the major trends in global and regional integration.
  3. **EXAMINE** the changing balance of global economic power and trade and investment flows among countries.
  4. **ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

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# International Management

- **International management process:**
  - ❑ Applying management concepts and techniques in a multinational environment;
  - ❑ Adapting management practices to different economic, political, and cultural environments.
  
- **Multinational corporation (MNC):**
  - ❑ Operations in more than one country
  - ❑ International sales
  - ❑ Nationality mix of managers and owners

# The World's Top Nonfinancial MNCs from Developed Countries (ranked by foreign assets, 2004)

**Table 1-1**

## The World's Top Nonfinancial MNCs from Developed Countries, Ranked By Foreign Assets, 2004

(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	General Electric	United States	448,901	750,507	56,896	152,866
2	Vodafone Group Plc	United Kingdom	247,850	258,626	53,307	62,494
3	Ford Motor	United States	179,856	305,341	71,444	171,652
4	General Motors	United States	173,690	479,603	59,137	193,517
5	British Petroleum Company Plc	United Kingdom	154,513	193,213	232,388	285,059
6	ExxonMobil	United States	134,923	195,256	202,870	291,252
7	Royal Dutch/Shell Group	United Kingdom/ Netherlands	129,939	192,811	170,286	265,190
8	Toyota Motor Corp.	Japan	122,967	233,721	102,995	171,467
9	Total	France	98,719	144,636	123,265	152,353
10	France Telecom	France	85,669	131,204	24,252	58,554

Source: UNCTAD World Investment Report 2006, annex Table A.I.11.

# The World's Top Nonfinancial MNCs from Developing Countries (ranked by foreign assets, 2004)

**Table 1–2**

**The World's Top Nonfinancial MNCs from Developing Countries, Ranked by Foreign Assets, 2004**

(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Hutchison Whampoa Limited	Hong Kong, China	67,638	84,162	11,426	23,080
2	Petronas-Petroleum National Bhd	Malaysia	22,647	62,915	10,567	36,065
3	Singtel Ltd.	Singapore	18,641	21,626	5,396	7,722
4	Samsung Electronics Co., Ltd.	Republic of Korea	14,609	66,665	61,524	79,184
5	CITIC Group	China	14,452	84,744	1,746	6,413
6	Cemex S.A.	Mexico	13,323	17,188	5,412	8,059
7	LG Electronics, Inc.	Republic of Korea	10,420	28,903	36,082	41,782
8	China Ocean Shipping (Group) Co.	China	9,024	14,994	4,825	11,293
9	Petroleo Brasileiro S.A.-Petrobras	Venezuela	8,868	55,355	25,551	46,589
10	Jardine Matheson Holdings Ltd.	Hong Kong, China	7,141	10,555	10,555	8,988

Source: UNCTAD World Investment Report 2006, annex Table A.I.11.

# Globalization and Internationalization

- **Globalization:** the process of integration among countries around the world with a vision of a single market entity:

**S**ocial **E**conomic **P**olitical **T**echnological  
**C**ultural

- **Internationalization:** the process of a business crossing national and cultural borders.

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# Globalization: Pros and Cons

- **Benefits of Globalization:**  
wealth, jobs, technology, lower prices.
- **Criticisms of Globalization:**  
off-shoring of business service jobs to lower-wage countries;  
growing trade deficits;  
slow wage growth;  
environmental and social impacts.

# Global and Regional Integration:

- **Global Agreements:**

World Trade Organization (WTO)  
(General Agreement on Tariffs and Trade  
(GATT))

- **Regional Agreements:**

North American Free Trade Agreement (NAFTA)

U.S.-Central American Free Trade Agreement  
(CAFTA)

European Union (EU)

Association of Southeast Asian Nations (ASEAN)

Free Trade Agreement of the Americas (FTAA)

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# International Economic Power in the Global Economy:

Shifting landscape due to:

- Economic integration
- Economic potential of emerging markets

# The World's Largest Economies 2005 and 2020 (Projected) Measured by GDP at Market Exchange Rates:

**Table 1–3**  
**The World's Largest Economies 2005 and 2020 (Projected)**  
**Measured by GDP at Market Exchange Rates**  
(in millions of dollars)

	2005		2020	
	GDP	Rank	GDP	Rank
United States	12,457	1	28,830	1
Japan	4,617	2	6,862	3
Germany	2,829	3	4,980	4
China	2,225	4	10,130	2
United Kingdom	2,213	5	4,203	5
France	2,132	6	3,536	6
Italy	1,720	7	2,543	10
Canada	1,122	8	2,206	11
Spain	1,119	9	2,146	12
South Korea	804	10	2,607	9
Brazil	787	11	1,600	13
India	759	12	3,228	7
Mexico	752	13	1,450	14
Russia	749	14	2,692	8

*Source:* Economist Intelligence Unit.

# The World's Largest Economies 2005 and 2020 (Projected) Measured by GDP at Purchasing Power Parity (ppp)

**Table 1–4**  
**The World's Largest Economies 2005 and 2020 (Projected)**  
**Measured by GDP at Purchasing Power Parity**  
(in millions of dollars)

	2005		2020	
	GDP	Rank	GDP	Rank
United States	12,457	1	28,830	2
China	8,200	2	29,590	1
Japan	4,008	3	6,795	4
India	3,718	4	13,363	3
Germany	2,426	5	4,857	5
United Kingdom	1,962	6	4,189	6
France	1,905	7	3,831	7
Brazil	1,636	8	3,823	8
Italy	1,630	9	2,884	10
Russia	1,542	10	3,793	9
Spain	1,151	11	2,427	14
Canada	1,071	12	2,423	15
South Korea	1,067	13	2,837	11
Mexico	1,059	14	2,459	13

Source: Economist Intelligence Unit.

# Most Populous Countries in 1980, 2000, and 2050 (Projected):

**Table 1–6  
Most Populous Countries in 1980, 2000, and 2050  
(Projected) Ranked by Size**

<b>1980</b>	<b>2000</b>	<b>2050</b>
China	China	India
Soviet Union	India	China
India	United States	United States
United States	Indonesia	Pakistan
Japan	Brazil	Indonesia
Indonesia	Russian Fed.	Nigeria
Germany	Pakistan	Bangladesh
Brazil	Bangladesh	Brazil
United Kingdom	Japan	Congo
Italy	Nigeria	Ethiopia
France	Mexico	Mexico
Bangladesh	Germany	Philippines

Source: UN.

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# Trends in International Investments and Trade:

- International Investments:
  - 80% from developed countries
  - Foreign direct investment (FDI)
  - Growing at healthy rate
  - Outpacing domestic growth in most countries
- International Trade:
  - Over 1/2 of world trade accounted for by United States, European Union and Japan
  - Increased substantially over last two decades

# Trade Flows Among World Regions, 2005 (in billions of dollars or percent)

**Table 1-7**  
**Trade Flows Among World Regions, 2005**  
(in billions of dollars or percent)

Origin	Destination							World
	North America	South and Central America	Europe	Commonwealth of Independent States (CIS)	Africa	Middle East	Asia	
<b>Value (in \$billion)</b>								
North America	824	87	238	7	18	34	270	1,478
South and Central America	118	86	68	6	10	6	48	355
Europe	398	58	3,201	109	112	122	332	4,372
Commonwealth of Independent States (CIS)	19	7	178	62	5	11	40	340
Africa	60	8	128	1	26	5	49	298
Middle East	66	3	87	3	15	54	281	538
Asia	608	51	498	37	54	89	1,424	2,779
World	2,093	301	4,398	224	240	321	2,443	10,159
<b>Share of Regional Trade Flows in World Merchandise Exports</b>								
North America	8.1	0.9	2.3	0.1	0.2	0.3	2.7	14.5
South and Central America	1.2	0.8	0.7	0.1	0.1	0.1	0.5	3.5
Europe	3.9	0.6	31.5	1.1	1.1	1.2	3.3	43.0
Commonwealth of Independent States (CIS)	0.2	0.1	1.8	0.6	0.0	0.1	0.4	3.3
Africa	0.6	0.1	1.3	0.0	0.3	0.1	0.5	2.9
Middle East	0.7	0.0	0.9	0.0	0.2	0.5	2.8	5.3
Asia	6.0	0.5	4.9	0.4	0.5	0.9	14.0	27.4
World	20.6	3.0	43.3	2.2	2.4	3.2	24.0	100.0

Source: WTO International Trade Statistics, 2006.

# World Foreign Direct Investment Inflows (in millions of dollars):

**Table 1–8**  
**World Foreign Direct Investment Inflows**  
(millions of dollars)

	2004	2005
<b>Developed Economies</b>		
(selected areas)		
United States	122,377	99,443
United Kingdom	56,214	164,530
Germany	15,113	32,663
France	31,371	63,576
Canada	1,533	33,822
Japan	7,816	2,775
<b>Emerging Economies</b>		
(selected areas)		
Hong Kong, China	34,032	35,897
China	60,630	72,406
Africa	17,199	30,672
Mexico	18,674	18,055
Brazil	18,146	15,066
Singapore	14,820	20,083
Russia	15,444	14,600
India	5,474	6,598
Malaysia	4,624	3,967
Vietnam	1,610	1,610
World	10,255,642	11,046,106

*Source:* UNCTAD World Investment Report 2006.

# World Foreign Direct Investment Outflows (in millions of dollars):

**Table 1–9**  
**World Foreign Direct Investment Outflows**  
(in millions of dollars)

	2004	2005
<b>Developed Economies</b>		
(selected areas)		
United States	222,437	–12,714
United Kingdom	94,862	101,099
Germany	1,883	45,634
France	57,006	115,668
Canada	43,254	34,083
Japan	30,951	45,781
<b>Emerging Economies</b>		
(selected areas)		
Hong Kong, China	45,716	32,560
China	1,805	11,306
Africa	1,885	1,054
Mexico	4,432	6,171
Brazil	9,807	2,517
Singapore	8,512	5,519
Russia	13,782	13,126
India	2,024	1,364
Malaysia	2,061	2,971
Vietnam	0	0
World	11,138,308	11,450,614

Source: UNCTAD World Investment Report 2006.

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# Economic Systems of the World:

- Market Economy
- Command Economy
- Mixed Economy

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# Economic Performance by Major World Region:

- North America
- South America
- Europe (EU, Central and Eastern Europe)
- Asia (Japan, China, emerging markets of Asia)
- Other developing and emerging countries (India, Middle East, Central Asia, Africa)

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# Economic Performance:

## North America

### ■ North America:

- Free market base economy in region
- Combined purchasing power of U.S., Canada and Mexico approaches \$12 trillion in purchasing power
- Foreign MNC's find U.S. to be a lucrative market

### United States:

- Foreign MNC's find U.S. a lucrative expansion market
- Foreign firms welcomed as investors in U.S. market
- U.S. firms hold market dominance in many European markets; gaining market share in Asia

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# Economic Performance:

## North America (continued):

### Canada:

- U.S.'s largest trading partner
- Most of the largest foreign-owned Canadian companies are totally or heavily U.S.-owned
- Legal and business environment in Canada is similar to that in U.S.

### Mexico:

- Strongest Latin American economy
- Very strong *maquiladora* industry
- Trade with both Europe and Asia has increased
- Now competitive with Asia for the U.S. market

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# Economic Performance:

## South America

- South American countries have accumulated heavy foreign debt and experienced severe inflation
- Major development is inter-country trade, including free market policies among South American countries
- South American countries increasingly looking to do business with U.S.

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# Economic Performance: European Union

- ❑ Privatization of traditionally nationalized industries
- ❑ Emergence of the EU as an operational economic union
- ❑ Economic linkages between the EU and newly emerging Central and Eastern European countries
- ❑ Challenge is to absorb former communist bloc countries
- ❑ Foreign MNCs gain foothold in EU by:
  - Acquisitions, Alliances, Cooperative R&D efforts

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# Economic Performance: Central and Eastern Europe

- Russia, Czech Republic, Hungary, Poland:
  - ❑ Dismantling of Russian price controls
  - ❑ Perestroika—economic and political restructuring
  - ❑ Privatization
  - ❑ Inflation
  - ❑ Crime
  - ❑ Membership in International Monetary Fund (IMF)
  - ❑ Political uncertainty

# Economic Performance:

## Asia

- Japan
  - Phenomenal economic success in 1970s and 1980s
  - Ministry of International Trade and Industry (MITI)
  - Keiretsus
    - Vertically integrated industries
    - Holdings provide assistance needed in providing goods and services to end users
  - Decade long recession in 1990s
    - Bank loans backed by real estate or projected revenues
    - By 2000, most major banks had billions of dollars in uncollectible loans
    - International competition has increased

# Economic Performance:

## Asia

### ■ China

- ❑ Annual real economic growth of 10 percent during the 1980's and early 1990's
- ❑ More recent growth of 8 percent or higher
- ❑ Healthy and growing economy
- ❑ GDP growth of 11.1 percent in 1<sup>st</sup> ¼ of 2007
- ❑ Attractive to foreign investors despite major political risk
- ❑ Product pirating is a major problem
- ❑ Complicated and high-risk venture

# Economic Performance:

## Asia

- ❑ The Four Tigers

- **South Korea**

- ❑ Chaebols (large family-held Korean conglomerates)
    - ❑ Affected by declining economies of Southeast Asia in 1990's

- **Hong Kong**

- ❑ Now part of People's Republic of China
    - ❑ Uncertainty about the role the Chinese government intends to play in local governance

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# Economic Performance: Asia

- The Four Tigers (continued)
  - Singapore
    - Least hurt by economic downturn of 1990's
  - Taiwan
    - Progression from labor-intensive economy to one dominated by technologically sophisticated industries (banking, electricity generation, petroleum refining and computers)

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# Economic Performance: Southeast Asia

- The Baby Tigers (Thailand, Malaysia, Indonesia):
  - ❑ Large population base
  - ❑ Inexpensive labor
  - ❑ Considerable natural resources
  - ❑ Attractive to outside investors

# Economic Performance: Developing and Emerging Countries

- India
  - ❑ Low per capital GDP
  - ❑ Recent trend of locating software and high value-added services to this country
  - ❑ Attractive to U.S. and British investors (well educated, English speaking, technologically sophisticated workers)
  
- Middle East and Central Asia
  - ❑ Large oil reserves
  - ❑ Highly unstable geopolitical and religious forces
  - ❑ Plagued by continuing economic problems

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# Economic Performance: Developing and Emerging Countries

- Africa
  - Considerable natural resources
  - African nations remain very poor and undeveloped
  - International trade is not a major sources of income
  - Populace divided into 3,000 tribes that speak 1,000 languages and dialects
  - Major political instability
  - Poverty, starvation, illiteracy, corruption, overcrowding among many social problems negatively affecting economic sector

# World's Most Competitive Nations, 2006

**Table 1–10  
World's Most Competitive Nations, 2006**

<b>Country</b>	<b>Rank</b>
United States	1
Singapore	2
Hong Kong	3
Luxemburg	4
Denmark	5
Switzerland	6
Iceland	7
Netherlands	8
Sweden	9
Canada	10

*Source:* World Competitive Scoreboard, 2006.

# Market Potential Indicators Ranking for Emerging Markets, 2007

**Table 1–11**  
**Market Potential Indicators Ranking for Emerging Markets, 2007**

Countries	Market Size	Market Growth	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Economic Freedom	Market Receptivity	Country Risk
China	1	1	25	12	16	27	22	13
Hong Kong	24	20	1	13	2	6	2	2
Singapore	27	18	9	11	6	10	1	1
Taiwan	12	6	11	–	1	8	5	3
Israel	25	12	2	4	3	3	4	5
S. Korea	7	16	5	2	5	7	10	4
Czech Republic	23	9	13	3	4	2	9	6
Hungary	26	24	3	1	7	4	8	8
India	2	3	22	7	25	17	27	16
Poland	14	27	10	6	8	5	14	9
Turkey	9	7	12	10	12	16	18	20
Malaysia	20	2	26	19	10	20	3	11
Russia	3	15	23	16	9	25	19	17
Mexico	5	25	8	21	15	11	6	12
Thailand	17	11	18	14	20	15	7	15
Chile	21	19	17	23	13	1	12	10
Argentina	15	10	4	20	11	14	25	27
Saudi Arabia	13	4	27	–	14	22	11	7
Egypt	16	14	14	9	21	26	17	18
Pakistan	10	5	6	5	26	23	26	25
Indonesia	6	13	21	8	27	21	15	24
Phillipines	11	21	7	18	22	19	13	23
Brazil	4	26	20	24	17	13	24	19
S. Africa	8	17	15	25	24	9	20	14

Source: GlobalEdge.

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# Review and Discuss

1. How has globalization affected different world regions? What are some of the benefits and costs of globalization for different sectors of society?
2. How has NAFTA affected the economies of North America and the EU affected Europe? What importance do these economic pacts have for international managers in North America, Europe and Asia?
3. Why would MNCs be interested in South America, India, the Middle East, Central Asia, and Africa, the less developed and emerging countries of the world?