



International Business

Competing in the Global Marketplace

8e

By Charles W.L. Hill

Chapter 1

Globalization

What Is Globalization?

- ❖ The world is toward an interdependent, integrated global economic system
- ❖ **Globalization** refers to the shift toward a more integrated and interdependent world economy, including two facets:
 - ❖ Globalization of markets
 - ❖ Globalization of production

Globalization of Markets

- ❖ **Globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace.
- ❖ Instead, there is the “global market”
 - ❖ falling trade barriers make it easier to sell globally
 - ❖ consumers’ tastes and preferences are converging
 - ❖ firms promote the trend by offering the same basic products worldwide

Globalization of Production

- ❖ **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 like land, labor, and capital.
- ❖ Companies can
 - ❖ lower their overall cost structure
 - ❖ improve the quality or functionality of their product offering

Global Institutions

- ❖ Institutions are needed to
 - ❖ help manage, regulate, and police the global marketplace
 - ❖ promote the establishment of multinational treaties to govern the global business system
- ❖ Examples include
 - ❖ General Agreement on Tariffs and Trade (GATT)
 - ❖ World Trade Organization (WTO)
 - ❖ International Monetary Fund (IMF)
 - ❖ World Bank
 - ❖ United Nations (UN)

Global Institutions

- ❖ The **World Trade Organization (WTO)** (like its predecessor **GATT**)
 - ❖ polices the world trading system
 - ❖ makes sure that nation-states adhere to the rules laid down in trade treaties
 - ❖ promotes lower barriers to trade and investment
 - ❖ As of 2009, 153 member nations collectively accounted for 97% of world trade
- ❖ The **International Monetary Fund (IMF)** (1944) maintains order in the international monetary system

Global Institutions

- ❖ The **World Bank** (1944) promotes economic development, focusing on making low-interest loans governments in poor nations
- ❖ The **United Nations** (1945)
 - ❖ maintains international peace and security
 - ❖ develops friendly relations among nations
 - ❖ cooperates in solving international problems and in promoting respect for human rights
 - ❖ is a center for harmonizing the actions of nations

Drivers of Globalization

Two macro factors underlie the trend toward greater globalization:

- ❖ **Declining trade and investment barriers**

- ❖ since 1950, average tariffs have fallen significantly and are now at about 4%
- ❖ countries have opened their markets to FDI

- ❖ **Technological change**

- ❖ microprocessors and telecommunications
- ❖ the Internet and World Wide Web
- ❖ transportation technology

Average Tariff Rates on Manufactured Products as Percent of Value

		1913	1950	1990	2008
France		21%	18%	5.9%	3.9%
Germany	20	26	5.9	3.9	3.9%
Italy	18	25	5.9	3.9	3.9%
Japan	30	—	5.3	2.3	3.9%
Holland	5	11	5.9	3.9	3.9%
Sweden	20	9	4.4	3.9	3.9%
Great Britain	—	23	5.9	3.9	3.9%
United States	44	14	4.8	3.2	3.9%

Implications for Business

- ❖ Lower barriers to trade & investment mean firms can
 - ❖ view the world as their market
 - ❖ base production in the optimal location for that activity
- ❖ Technological change means
 - ❖ lower transportation costs - help create global markets
 - ❖ lower information and communication costs
 - ❖ low-cost global communications networks - help create an electronic global marketplace
 - ❖ global communication networks and global media - create a worldwide culture, and a global market for consumer products

The Changing Demographics of the Global Economy

- ❖ There has been a drastic change in the demographics of the world economy in the last 30 years
- ❖ Four trends are important:
 1. Changing World Output and World Trade Picture
 2. Changing Foreign Direct Investment (FDI) Picture
 3. Changing Nature of the Multinational Enterprise (MNE)
 4. Changing World Order

Changing World Output & World Trade Picture

- ❖ In 1960, the US accounted for over 40% of world economic activity; by 2008, it accounted for just over 20% of world economic activity
 - ❖ A similar trend occurred in other developed countries
- ❖ The share of world output accounted for by developing nations is rising and is expected to account for more than 60% of world economic activity by 2020
 - ❖ From 1963 to 2008, China's share of world GDP increased to 11.2%

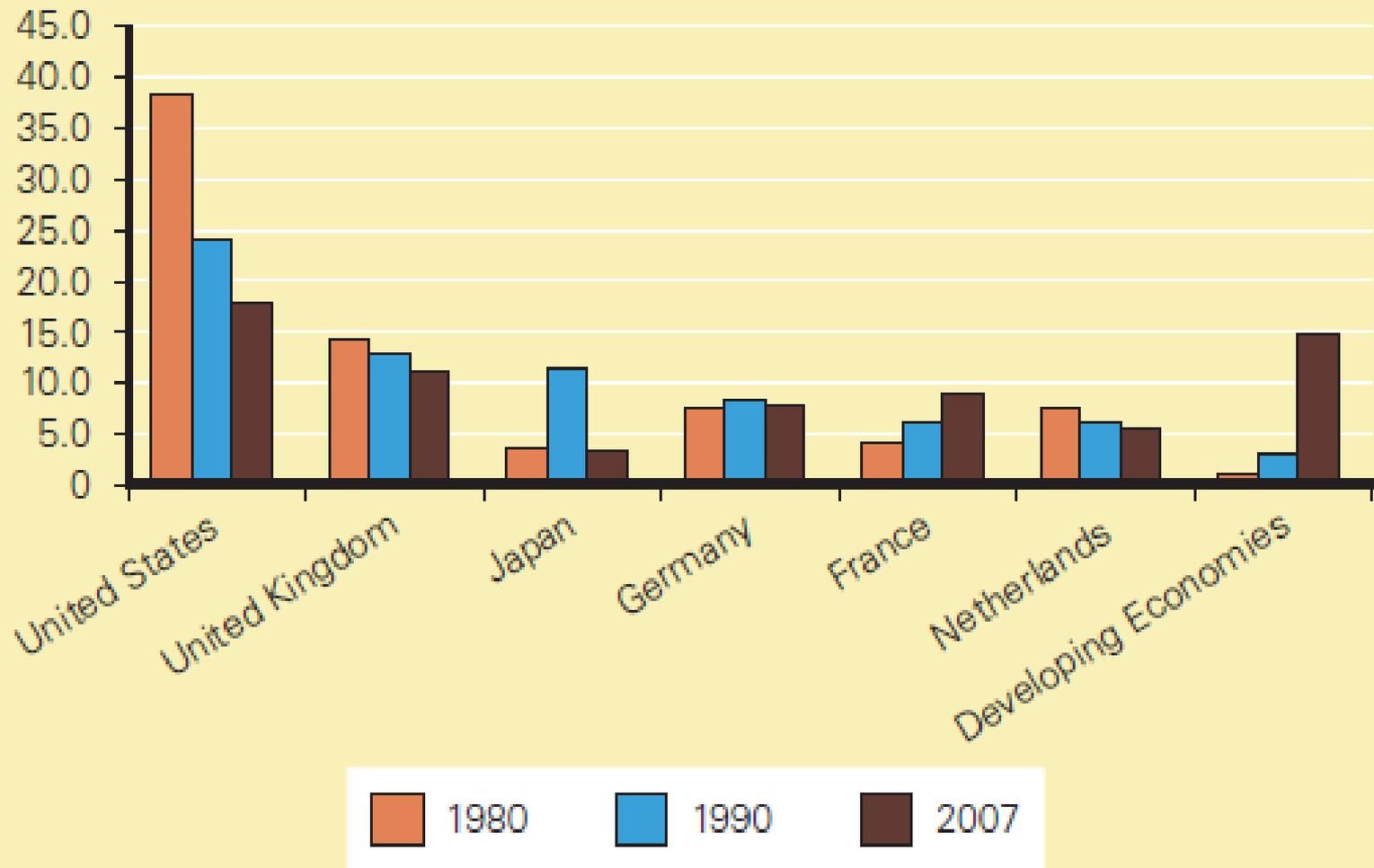
The Changing Demographics of World GDP & Trade

Country	Share of World Output, 1963	Share of World GDP, 2008	Share of World Exports, 2008
United States	40.3%	20.7%	9.3%
Germany	9.7	4.2	8.7
France	6.3	3.1	3.8
Italy	3.4	2.6	3.4
United Kingdom	6.5	3.2	3.9
Canada	3.0	1.9	2.7
Japan	5.5	6.4	4.5
China	NA	11.4	8.4

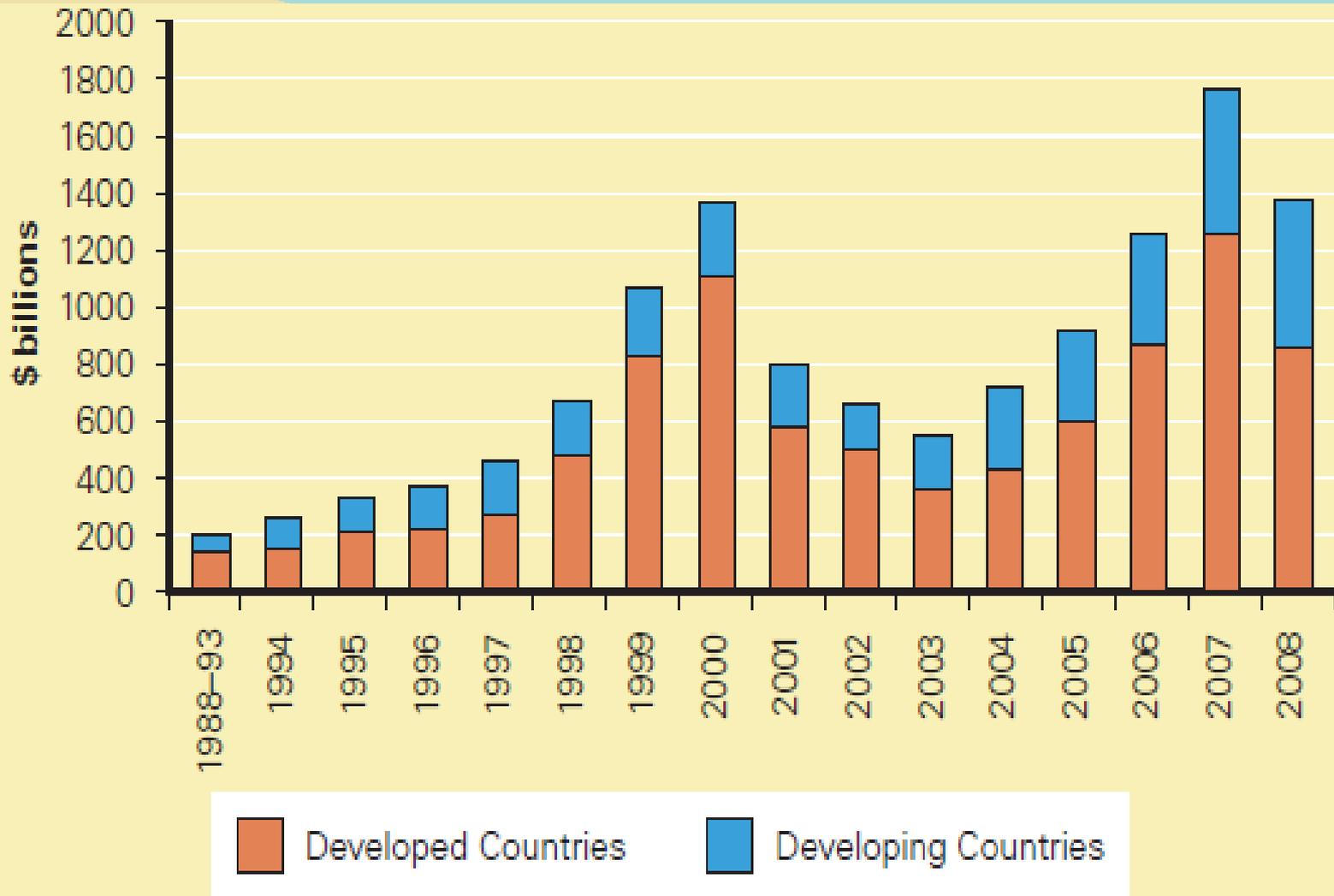
Has FDI Changed Over Time?

- ❖ In the 1960s, U.S. firms accounted for about two-thirds of worldwide FDI flows; today, the US accounts for less than one-fifth of worldwide FDI flows
 - ❖ Other developed countries have followed a similar pattern
- ❖ In contrast, the share of FDI accounted for by developing countries has risen
- ❖ Developing countries, especially China, have also become popular destinations for FDI

Percentage Share of Total FDI Stock 1980-2007



FDI Inflows 1988-2008



Multinational Enterprise (MNE)

- ❖ A **MNE** is any business that has productive activities in two or more countries
- ❖ Since the 1960s, two notable trends in the demographics of the MNE:
 1. The rise of non-U.S. multinationals – a relative decline in the dominance of U.S. firms in the global marketplace
 2. The growth of mini-multinationals – international business (IB) is conducted not just by large firms but also by medium-size and small enterprises

MNE

- ❖ MNE or MNC
- ❖ TNC(transnational corporation)managed and owned by Two different countries.
- ❖ Global company: integrates its operations that are located from different countries. (owned and managed by two different countries)
- ❖ Multidomestic company: allow each of its foreign company to act fairly independtly.packaging and producing products according to country(coca cola)

The Changing World Order

- ❖ Soviet union, Yugoslavia
- ❖ Many former Communist nations in Europe and Asia are now committed to democratic politics and free market economies
 - ❖ so, there are new opportunities for IB
- ❖ China and Latin America are also moving toward greater free market reforms
 - ❖ between 1983 and 2008, FDI in China increased from less than \$2 billion to \$90 billion annually
 - ❖ but, China also has many new strong companies that could threaten Western firms

Global Economy of 21st Century

- ❖ The world is moving toward a more global economic system...
- ❖ But globalization is not inevitable
 - ❖ there are signs of a retreat from liberal economic ideology in Russia
- ❖ Globalization brings risks
 - ❖ the financial crisis that swept through Southeast Asia in the late 1990s
 - ❖ the recent financial crisis that started in the U.S. in 2008, and moved around the world

The Globalization Debate

- ❖ Supporters believe that increased trade and cross-border investment mean
 - ❖ lower prices for goods and services
 - ❖ greater economic growth
 - ❖ higher consumer income, and more jobs
- ❖ Critics worry that globalization will cause
 - ❖ job losses
 - ❖ environmental degradation
 - ❖ the cultural imperialism of global media and MNEs
- ❖ Anti-globalization protesters now regularly show up at most major meetings of global institutions

Globalization, Jobs and Income

- ❖ Critics argue that falling barriers to trade are destroying manufacturing jobs in advanced countries
- ❖ Supporters contend that the benefits of this trend outweigh the costs
 - ❖ countries will specialize in what they do most efficiently and trade for other goods—and all countries will benefit

Globalization, Labor Policies and the Environment

- ❖ Critics argue that firms avoid costly efforts to adhere to labor and environmental regulations by moving production to countries where such regulations do not exist, or are not enforced
- ❖ Supporters claim that tougher environmental and labor standards are associated with economic progress
 - ❖ as countries get richer from free trade, they implement tougher environmental and labor regulations

Globalization and National Sovereignty

- ❖ Is today's interdependent global economy shifting economic power away from national governments toward supranational organizations like the WTO, the EU, and the UN?
- ❖ Critics argue that unelected bureaucrats have the power to impose policies on the democratically elected governments of nation-states
- ❖ Supporters claim that the power of these organizations is limited to what nation-states agree to grant
 - ❖ the power of the organizations lies in their ability to get countries to agree to follow certain actions

Globalization & the World's Poor

- ❖ Is the gap between rich nations and poor nations is getting wider?
- ❖ Critics believe that if globalization was beneficial there should not be a divergence between rich and poor nations
- ❖ Supporters claim that the best way for the poor nations to improve their situation is to
 - ❖ reduce barriers to trade and investment
 - ❖ implement economic policies based on free market economies
 - ❖ receive debt forgiveness for debts incurred under totalitarian regimes

Managing in the Global Marketplace

- ❖ Managing IB differs from managing a domestic business because
 - ❖ countries are different
 - ❖ the range of problems confronted in IB is wider and the problems more complex than those in a domestic business
 - ❖ firms have to find ways to work within the limits imposed by government intervention in the international trade and investment system
 - ❖ international transactions involve converting money into different currencies

Review Questions

1. The shift toward a more integrated and interdependent world economy is referred to as _____.
2. The merging of historically distinct and separate national markets into one huge global marketplace is known as _____.
3. Firms that are involved in international business tend to be _____.
4. Which is not a factor of production?
 - a) Trade
 - b) Land
 - c) Capital
 - d) Energy

Review Questions

- 5.** The sourcing of good and services from around the world to take advantage of national differences in the cost and quality of factors of production is called _____.
- 6.** Which organization is responsible for policing the world trading system?
- 7.** What is the single most important innovation to the globalization of markets and production?

Review Questions

- 8.** Which of the following trends is true?
- a) The US is accounting for a greater percentage of world trade than ever before
 - b) The US is accounting for a greater percentage of foreign direct investment than ever before
 - c) The share of world trade accounted for by developing countries is rising
 - d) The share of foreign direct investment by developing countries is declining

Review Questions

9. Which of these is not a concern of anti-globalization protesters?
- a) globalization raises consumer income
 - b) globalization contributes to environmental degradation
 - c) globalization is causing a loss of manufacturing jobs in developed countries
 - d) globalization implies a loss of national sovereignty

Case

❖ General Electrics