

PART ONE

CHAPTER

ONE

# Globalization

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## Learning Objectives

- Describe the process of *globalization* and how it affects markets and production.
- Identify the *two forces* causing globalization to increase.
- Summarize the evidence for each main argument in the *globalization* debate.
- Identify the *types of companies* that participate in international business.
- Describe the *global business environment* and identify its four main elements.

This chapter defines the scope of international business within the context of globalization. Globalization lets firms standardize marketing practices, enter new markets, access resources worldwide, and increase production efficiency. Fueling globalization are falling barriers to trade and investment, and rapid innovation in communication and transportation technologies. Globalization also affects a nation, whose level of globalization depends on political engagement, technological connectivity, personal contact, and economic integration. Yet because globalization's impact is not always uniform, nor always positive, it has sparked debate. Disputes include globalization's affect on jobs and wages; labor and environmental protection laws; income inequality; national sovereignty; and cultural diversity. Large multinationals, small firms, and entrepreneurs engage in international business. Each of these must navigate the global business environment—the dynamic, integrated global system that weaves together four distinct elements: (1) the forces of globalization, (2) national business environments, (3) the international business environment, and (4) international firm management.

## Lecture Outline

### 1. INTRODUCTION (PPT 1-4)

Globalization is causing fundamental changes in culture, politics, law, and economics and affecting living standards in all nations—some for the better, some for the worse. Also, by expanding markets for firms and multiplying their production possibilities, it is altering the global pattern of trade and investment.

- Technology Makes It Happen
    1. *E-business (e-commerce)* is the purchase, sale, or exchange of goods and services, as well as servicing customers, collaboration with business partners, and transactions within a company via computer networks.
  - International Business Involves Us All
    1. We all experience international business from morning ‘til night.
    2. *International business* is any commercial transaction that crosses the borders of two or more nations. Involved are consumers, companies, financial institutions, and governments.
    3. *Imports* are goods and services brought into a country that are acquired from organizations located abroad. *Exports* are goods and services produced or based in one country that are sold abroad.
  - The Global Relay Race
    1. Development and production now regularly occur on a global basis for many goods and services, including computer software and hardware.
    2. Performing these globally *increases firm efficiency and competitiveness*.
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### 2. GLOBALIZATION (PPT 5-7)

*Globalization* is the trend toward greater economic, cultural, political and technological interdependence among national institutions and economies. It is marked by “denationalization” in which national boundaries are becoming less relevant. Greater interdependence means freer flows of goods, services, money, and people across borders.

#### A. Globalization of Markets

1. *Globalization of markets* refers to convergence in buyer preferences in markets around the world.
2. Global products and global competition characterize many industries, including semiconductors, aircraft, construction equipment, autos, financial services, air travel, accounting, and consumer goods.
3. Offers firms several benefits:
  - a. Reduce costs by *standardizing* marketing activities, such as advertising.
  - b. Creates market opportunities abroad if home market is small or saturated.
  - c. Levels income stream by letting international sales offset domestic sales for a company selling a global seasonal product.
  - d. Yet companies must not overlook buyers’ needs: benefits of adaptation might outweigh benefits of standardization.

#### B. Globalization of Production

1. *Globalization of production* refers to the dispersal of production activities to locations that help a company achieve its cost-minimization or quality-maximization objectives for a good or service.
  2. Offers firms several benefits:
    - a. Access low-cost labor to lower production costs.
    - b. Access technical know-how.
    - c. Access resources unavailable or costly at home.
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3. FORCES DRIVING GLOBALIZATION (PPT 8-11)

A. Falling Barriers to Trade and Investment

The 1947 *General Agreement on Tariffs and Trade (GATT)* promoted free trade by reducing tariffs and nontariff barriers. A major 1994 GATT revision: (1) reduced average tariffs and lowered subsidies for agricultural products; (2) defined intellectual property rights, giving protection to copyrights, trademarks and service marks, and patents; and (3) created the WTO.

1. World Trade Organization (147 members in 2004)

- a. *World Trade Organization (WTO)* is the international organization that regulates trade between nations, and has the power to enforce trade rules.
- b. Goals of the WTO are: (1) to help the free flow of trade, (2) help negotiate the furthering opening of markets, and (3) settle trade disputes.
- c. WTO agreements are contracts committing members to fair and open trade policies. The WTO dispute settlement system is the spine of the global trading system.
- d. A new “Doha” round of negotiations began in 2001 could bring particular benefits for developing nations. Rich nations are to help poor nations integrate themselves into the global trading system.

2. Regional Trade Agreements

- a. Smaller groups of nations also are integrating their economies (e.g., NAFTA, 3 nations; EU, 25 nations; and APEC, 21 nations).

3. Trade Agreements and Trade Growth.

- a. The combined effect of the WTO efforts and regional trade pacts is greater global trade and cross-border investing.
- b. Trade growth has been faster than world output (Fig. 1.2).
- c. *Gross Domestic Product (GDP)* is the value of all goods and services produced by a country’s domestic economy over a one-year period. *Gross national product (GNP)* adds income from international activities.

B. Technological Innovation

Technological innovations are accelerating globalization by making it easier, faster, and less costly to move data, goods, equipment, and people globally.

1. E-mail and Videoconferencing

- a. Speed information flows and ease the tasks of coordination and control, which are complicated by operating across borders.
  - b. Driving growth in videoconferencing are lower-cost bandwidth and equipment, and decreased business travel for cost/safety reasons.
2. Internet and World Wide Web
- a. Firms are using the Web to sharpen forecasting, lower inventories, and improve communication with suppliers. Also allows quick, cheap, and efficient access to distant managers.
  - b. Reduces the cost of reaching an international customer base, which is extremely important for the competitiveness of small firms.
3. Company Intranets and Extranets
- a. *Intranets* are private networks of company Web sites and other information sources that allow access to information from distant locations (e.g., Volvo's quarter-by-quarter marketing planning tool).
  - b. *Extranets* are computer networks that give distributors and suppliers access to a company's database so they can place orders or restock inventories electronically and automatically.
4. Advancements in Transportation Technologies
- a. Transportation advancements are facilitating globalization by making shipping more efficient and dependable (e.g., large cargo ship now unloaded in 15 hours versus 10 days).
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C. Measuring Globalization

1. Globalization appears to be proceeding despite protests. One attempt to measure the globalization of nations is the index created by consultancy A.T. Kearney and *Foreign Policy* magazine. Each nation is ranked on 14 variables that fall into four categories:
  - a. Political Engagement: memberships in international organizations, personnel and financial contributions to UN Security Council missions, international treaties ratified, and governmental transfers.
  - b. Technological Connectivity: Internet users, Internet hosts, and secure servers.
  - c. Personal Contact: international travel and tourism, international telephone traffic, remittances, and personal transfers (including compensation to employees).
  - d. Economic Integration: trade, foreign direct investment, portfolio capital flows, and investment income.
2. In 2004, six of the top ten most global nations were from Europe with the United States ranking seventh (see Figure 1.3).
3. But the 10 least global nations account for about half the world's population, and are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Low levels of technological connectivity in these nations are powerful drags on their global integration.

4. UNTANGLING THE GLOBALIZATION DEBATE

Because people conceive of globalization in sometimes vastly different ways and from different perspectives, we must carefully dissect the globalization debate.

A. Today's Globalization in Context (PPT 12-13)

1. The world's first age of globalization extended from the mid-1800s to the 1920s. Migration levels reached record highs, domestic workers faced competition from cheaper labor abroad, and trade and capital flowed more freely than ever before.
2. Drivers of that first age of globalization were the steamship, telegraph, railroad, telephone, and airplane.
3. World War I, the Russian Revolution, and the Great Depression abruptly ended that first age of globalization. A backlash against globalization led to high tariffs and other barriers.
4. The geographic divide between East and West became an ideological divide between communism and capitalism. It took until the 1990s, when East and West again worked together, for international capital flows to regain their prior pace.
5. Drivers of this second age of globalization include communication satellites, fiber optics, microchips, and the Internet.

B. The Current Globalization Backlash (PPT 14)

1. A wave of anti-globalization protests recently found their voice and are attempting to halt further globalization, complaining that the world is not sharing the fruits of globalization.
2. The violence began in Seattle, Washington, in December 1999 at a meeting of the World Trade Organization, and reached a low point in July 2001 in Genoa, Italy, when one protestor died.
3. Two institutions to understand before beginning coverage of the debate.
  - a. The *World Bank* is an agency created to provide financing for national economic development efforts. The *International Monetary Fund (IMF)* is an agency created to regulate fixed exchange rates and enforce the rules of the international monetary system.

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C. Globalization's Impact on Jobs and Wages (PPT 15)

1. Globalization Costs Jobs and Lowers Wages
  - a. Eliminates jobs in developed nations as good-paying manufacturing jobs go abroad to developing countries. Low-priced goods do not replace jobs (e.g., Chinese imports).
  - b. Forces wages lower in developed countries by causing worker dislocation that lowers wages. New jobs that replace lost manufacturing jobs often pay less.
  - c. International outsourcing exploits workers in developing nations that work cheaply servicing western consumers.

- d. *In sum*, although globalization eliminates jobs in some sectors of a nation's economy, it tends to create jobs in other sectors.
- 2. Globalization Creates Jobs and Boosts Wages
  - a. Raises overall wealth in developed and developing nations because trade openness raises the output of a nation. Globalization also allows firms to become more efficient and pass savings on to consumers.
  - b. Generates labor market flexibility that allows an economy to rapidly deploy labor where demand is relatively great. Lets workers leave jobs and find new work fairly quickly.
  - c. Creates jobs in developed nations as outsourcing lowers labor costs and allows firms to instead use capital in expanding operations.
  - d. Advances developing nations' economies by injecting capital that creates higher-paying jobs than would otherwise be available, which expands the middle class and raises standards of living.
  - e. *In sum*, globalization supporters say gains that tend to accrue to national economies are worth lost livelihoods that individuals may suffer: Opponents say otherwise.
- D. Globalization's Impact on Labor and Environmental Regulation (PPT 16)
  - 1. Labor Standards
    - a. Trade unions claim that firms continually move to nations with low labor standards, which reduces labor's bargaining power and forces overall labor standards lower.
    - b. But studies of developing nations' export processing zones refute such claims and instead find evidence that contradicts such claims.
  - 2. Environmental Protection
    - a. Globalization opponents claim it creates a "race to the bottom" in environmental conditions and regulations: that countries compete in reducing environmental protection laws.
    - b. But evidence shows that pollution-intensive U.S. firms tend to invest in countries having stricter environmental standards. Also, closed economies historically are the worst polluters.
  - 3. Developing Future Markets
    - a. Protesters claim international firms pay locals the lowest possible wage and export their goods back to the home country.
    - b. Today, firms want to build local markets in developing nations, not simply exploit workers and foment local animosity.

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- E. Globalization and Income Inequality (PPT 17)
  - 1. Income Inequality within Nations
    - a. Globalization critics claim that income disparity in rich nations is increasing as firms move factory jobs to poor nations.

- b. Evidence on developed and developing nations is mixed. But it seems poor people in developing nations benefit from an open economy.
- 2. Inequality between Nations
  - a. Globalization opponents say it is widening the gap in average incomes between rich and poor nations.
  - b. At first, evidence seems to support this contention. On a closer look, we see that open nations are benefiting from trade while closed ones are not.
- 3. Global Inequality
  - a. Opponents of globalization say it is widening income inequality between all people of the world.
  - b. Studies tend to agree that global inequality has fallen in recent decades, though they disagree on the extent of the decline. Standard measures in these studies would be helpful.

F. Globalization and National Sovereignty (PPT 18)

- 1. Globalization: Menace to Democracy
  - a. Supranational institutions with their international goals and appointed officials undermine national sovereignty and democracy.
  - b. Elected officials undercut democracy and local and regional authority by signing 'inter-national' agreements on citizens' behalf.
- 2. Globalization: Guardian of Democracy
  - a. Globalization has helped spread democracy worldwide (e.g., more democratic nations than ever).
  - b. Some losses of sovereignty have had positive social impacts, such as in human and workers' rights and discrimination.

G. Globalization's Impact on Cultures (PPT 19)

- 1. Globalization homogenizes our world and allows multinationals to destroy cultural diversity and wipe out small local businesses.
  - 2. But globalization allows nations to (1) specialize and trade for goods they do not produce, (2) import other peoples' cultural goods, and (3) still protect deeper moral and cultural norms.
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5. KEY PLAYERS IN INTERNATIONAL BUSINESS (PPT 20-21)

Firms of all types and sizes are involved in international business, but vary in their involvement. Large firms from developed nations once dominated, but firms from China, Brazil, and Mexico now play a bigger role. Technological advancements are also allowing small and midsize companies to account for a greater portion of international business.

A. Multinational Corporations

A *multinational corporation (MNC)* is a business that has direct investments abroad in multiple countries (e.g., \$900 million Pinkerton to \$134 billion

DaimlerChrysler). They are highly visible because of their economic and political power and deals worth billions of dollars.

1. Profiling the Largest Multinationals
  - a. If Wal-Mart were a country it would rank ahead of Belgium in terms of economic power (see Figure 1.8).
  - b. Some companies have more employees than the smallest countries and island nations (e.g., Wal-Mart has 1,300,000 employees).

B. Entrepreneurs and Small Businesses

1. Small companies are increasingly active in international trade and investment. They are exporting earlier and growing faster with help from technology.
  2. A *born-global firm* is a company that takes a global perspective on its market and engages in international business from or near its inception. Arising today from developing and developed nations alike, they give hope for the future.
  3. Some small Internet companies reach customers solely through the Web (e.g., “Weekend in Florence” Web site).
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6. WHY INTERNATIONAL BUSINESS IS SPECIAL (PPT 22)

What makes international business special is that it occurs within a dynamic, integrated system that weaves together four distinct elements.

A. The Global Business Environment

1. *Globalization* is transforming our societies and commercial activities. The drivers of globalization are *increasing competition* everywhere, and companies must remain vigilant.
2. Each *national business environment* consists of unique cultural, political, legal, and economic characteristics. Companies must be attentive to nuances and adapt products and practices as needed.
3. *International business environment* directly and indirectly influences how business is conducted. Firms must closely monitor events here.
4. Context of *international firm management* is defined by the characteristics of national business environments. Managers must recognize and play by the rules in every market in which they conduct business.

B. The Road Ahead for International Business

Part I (Chapter 1): Globalization

Part II (Chapters 2-4): National Business Environments

Parts III and IV (Chapters 5-8 and 9-10): International Business Environment

Part V (Chapters 11-16): International Business Management

7. BOTTOM LINE FOR BUSINESS

A. Harnessing the Benefits of Globalization

1. The most global nations tend to have the greatest equality, robust environmental protection, inclusive political systems, lowest levels of corruption, healthiest lifestyles, and where women have achieved the most social, educational, and economic progress.
  2. The debate has opened a dialogue, moving from an argument of total stoppage versus the belief that it is unstoppable, to how globalization can be harnessed to make its benefits exceed its costs.
- B. Globalization of Markets and Production
1. Continued globalization is taking companies into previously isolated markets and increasing competitive pressures worldwide.
  2. As companies find it easier and less costly to manage widely dispersed marketing and production activities, new opportunities and threats will emerge.
- C. Jobs, Wages, and Inequality
1. Low wages is not all that draws investment by multinationals. A location must offer low-cost, adequately skilled workers in an environment with acceptable levels of social, political, and economic stability.
  2. Labor mobility is increasing with globalization and in some job categories wages are being depressed. Yet new employment opportunities are being developed.
- D. The Policy Agenda
1. Rich nations could open their markets, slash agricultural subsidies, and increase development aid. Poor nations could improve their investment climates, and improve social protection for the poor.
  2. Rich nations could offer workers their wage insurance, subsidized health insurance if out-of-work, and improve education. Rich nations could help the ILO enforce labor standards, help clarify environmental agreements, and research the environmental implications of trade agreements.