CHAPTER 1
GLOBALIZATION

LEARNING OBJECTIVES:
1. Describe the process of globalization and how it affects markets and production.
2. Identify the two forces causing globalization to increase.
3. Summarize the evidence for each main argument in the globalization debate.
4. Identify the types of companies that participate in international business.
5. Describe the global business environment and identify its four main elements.

CHAPTER OUTLINE:

Introduction
   International Business Involves Us All
   Technology Makes It Happen
   The Global Relay Race

Globalization
   Globalization of Markets
      Reduces Marketing Costs
      Creates New Market Opportunities
      Levels Uneven Income Streams
      Yet Local Needs Are Important
   Globalization of Production
      Access Lower-Cost Workers
      Access Technical Expertise
      Access Production Inputs

Forces Driving Globalization
   Falling Barriers to Trade and Investment
      World Trade Organization
      Regional Trade Agreements
      Trade Agreements and Trade Growth
   Technological Innovation
      E-mail and Videoconferencing
      Internet and World Wide Web
      Company Intranets and Extranets
      Advancements in Transportation Technologies

Measuring Globalization

Untangling the Globalization Debate
   Today’s Globalization in Context
   The Current Globalization Backlash
      Leaving the Anarchists Behind
   Before We Go On

Globalization’s Impact on Jobs and Wages
   Globalization Costs Jobs and Lowers Wages
      Eliminates Jobs in Developed Nations
      Forces Wages Lower in Developed Countries
      Exploits Workers in Developing Nations
   Globalization Creates Jobs and Boosts Wages
      Increases Wealth and Efficiency
Generates Labor Market Flexibility
Creates Jobs in Developed Nations
Advances Developing Nations’ Economies
Summary of The Jobs and Wages Debate

Globalization’s Impact on Labor and Environmental Regulation
Labor Standards
Environmental Protection
Developing Future Markets

Globalization’s Impact on Labor and Environmental Regulation
Globalization and Income Inequality
Inequality within Nations
Inequality Between Nations
Global Inequality
Summary of the Income Inequality Debate

Globalization and National Sovereignty
Globalization: Menace to Democracy?
Globalization: Guardian of Democracy?

Globalization’s Influence on Cultures

Key Players in International Business
Multinational Corporations
  Profiling the Largest Multinationals
Entrepreneurs and Small Businesses

Why International Business Is Special
The Global Business Environment
The Road Ahead for International Business

Bottom Line For Business
Harnessing the Benefits of Globalization
Globalization of Markets and Production
Jobs, Wages, and Inequality
The Policy Agenda

A comprehensive set of specially designed PowerPoint slides (designated ‘PPT’ below) is available for use with Chapter 1. These slides and the lecture outline below form a completely integrated package that simplifies the teaching of this chapter’s material.

**Lecture Outline**

1. **INTRODUCTION (PPT #1-4)**
Globalization is changing our cultures, our political, legal, and economic systems and affecting our standards of living. It alters the global pattern of trade and investment by expanding markets and multiplying production possibilities.

   • International Business Involves Us All
     1. *International business* is any commercial transaction that crosses the borders of two or more nations.
     2. *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.

   • Technology Makes It Happen
1. **E-business (e-commerce)** is the use of computer networks to purchase, sell, or exchange goods and services, service customers, collaborate with partners, and transact within a company.

   • **The Global Relay Race**
   1. Development and production now regularly occur on a global basis for many goods and services.
   2. Performing these globally **increases firm efficiency and competitiveness.**

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,” which is NOT “internationalization.” It embraces concepts and theories from economics, political science, sociology, anthropology, and philosophy.

   **A. Globalization of Markets**
   1. Convergence in buyer preferences in markets around the world.
   2. **Benefits:**
      a. Reduces costs by *standardizing* marketing activities.
      b. Creates market opportunities abroad if home is small/saturated.
      c. Offsetting income streams if selling a global seasonal product.
      d. Yet companies must not overlook buyers’ needs.

   **B. Globalization of Production**
   1. Dispersal of production activities to locations that help a company to minimize costs or maximize quality.
   2. **Benefits:**
      a. Access to low-cost labor to lower production costs.
      b. Access to technical know-how.
      c. Access to resources unavailable or costly at home.

3. **FORCES DRIVING GLOBALIZATION (PPT #8-11)**

   Forces are increasing competition among nations by leveling the global business playing field (e.g., Friedman’s *The World Is Flat*).

   **A. Falling Barriers to Trade and Investment**

   *1947 General Agreement on Tariffs and Trade (GATT):* treaty designed to promote free trade by reducing tariffs and nontariff barriers. 1994 GATT revision (1) reduced tariffs and lowered subsidies for agricultural products; (2) defined and protected intellectual property rights; and (3) created the WTO.

   1. World Trade Organization (149 members in 2007)
      a. **World Trade Organization (WTO):** is the international organization that regulates trade between nations, and has the power to enforce trade rules.
      b. WTO goals: (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. WTO dispute settlement system is the spine of the global trading system.

   2. **Regional Trade Agreements**
      a. Smaller groups of nations also are integrating their economies (e.g., NAFTA is 3 nations; EU is 27 nations).
3. Trade Agreements and Trade Growth
   a. Effect of the WTO 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
   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 travel for cost/safety reasons.
   2. Internet and World Wide Web
      a. Helps firms sharpen forecasting, lower inventories, and improve communication with suppliers. Allows quick, cheap, and efficient access to distant managers.
      b. Reduces the cost of reaching an international customer base, which is essential 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.
      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. Make global shipping more efficient and dependable.

C. Measuring Globalization
   1. Globalization index ranks nations on 14 variables in four categories: (1) political engagement, (2) technological connectivity, (3) personal contact, and (4) economic integration.
   2. Richest nations are the most global, with many from Europe (U.S. ranked 4th (Figure 1.3).
   3. The least global nations are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Low technological connectivity are drags on their global integration.

4. UNTANGLING THE GLOBALIZATION DEBATE
   People view globalization from sometimes vastly different perspectives.

   A. Today’s Globalization in Context (PPT #12-13)
      1. 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. Globalization backlash led to high tariffs and other barriers.
4. Geographic divide between East and West became an ideological divide between communism and capitalism. International capital flows regained their prior pace not until the 1990s.
5. Drivers of this second age of globalization are communication satellites, fiber optics, microchips, and the Internet.

B. The Current Globalization Backlash (PPT #14)
1. Protesters say the world does not fairly share 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 key institutions in coverage of the debate.
   a. The World Bank is an agency created to provide financing for national economic development efforts.
   b. The International Monetary Fund (IMF) is an agency created to regulate fixed exchange rates and enforce the rules of the international monetary system.

C. Globalization’s Impact on Jobs and Wages (PPT #15)
1. Against: 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 are not worth lost jobs.
   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. Summary: although globalization eliminates jobs in some economic sectors, it creates jobs in other sectors.
2. For: Globalization Creates Jobs and Boosts Wages
   a. Raises overall wealth in developed and developing nations because trade openness raises output. Firms grow 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.
   c. Creates jobs in developed nations as outsourcing lowers labor costs and firms instead use capital to expand operations.
   d. Advances developing nations’ economies by injecting capital that creates higher-paying jobs, which expands the middle class and raises standards of living.
   e. Summary: gains to national economies are worth lost livelihoods that individuals may suffer.

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 instead find evidence that contradicts such claims.

2. Environmental Protection
a. Globalization opponents say it creates a “race to the bottom” in environmental conditions and regulations: countries compete in reducing environmental protection laws.
b. But evidence shows pollution-intensive U.S. firms tend to invest in countries with 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.

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 is mixed, but poor people in developing nations seem to 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. Looking closely at the evidence, 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.

F. Globalization and National Sovereignty (PPT #18)
1. Globalization: Menace to Democracy
a. Supranational institutions with international goals and appointed officials undermine national sovereignty and democracy.
b. Elected officials undercut democracy and local and regional authority with ‘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, as in human rights, workers’ rights, and discrimination.

G. Globalization’s Impact on Cultures (PPT #19-20)
1. Critics say globalization homogenizes our world and lets MNCs destroy cultural diversity and wipe out small local businesses.
2. Yet 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.

5. KEY PLAYERS IN INTERNATIONAL BUSINESS (PPT #21-22)
Large firms from developed nations once dominated, but firms from China, Brazil, and Mexico now play a bigger role. Technological advancements allow small and midsize companies to better compete.

A. Multinational Corporations
MNC is a business that has direct investments abroad in multiple countries. 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 Turkey in terms of economic power (see Figure 1.7).
   b. Some MNCs have more employees than the smallest nations (e.g., Wal-Mart has 1,800,000 employees).

B. Entrepreneurs and Small Businesses
1. They are increasingly active in international business by 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.
3. Some small Internet companies reach customers solely through the Web.

6. WHY INTERNATIONAL BUSINESS IS SPECIAL (PPT #23)
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 business management is defined by the characteristics of national business environments. Managers must abide 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

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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 it gets easier and less costly to manage widely dispersed marketing and production activities, new opportunities and threats 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 depressing wages in some job categories but developing new job opportunities in others.

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.