

introduction to
global
BUSINESS

SECOND EDITION

Understanding the International Environment & Global Business Functions



GASPAR • ARREOLA-RISA • BIERMAN • HISE • KOLARI • SMITH

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introduction to global BUSINESS

SECOND EDITION

Understanding the International Environment and Global Business Functions



JULIAN E. GASPAR
Texas A&M University

LEONARD BIERMAN
Texas A&M University

JAMES W. KOLARI
Texas A&M University

ANTONIO ARREOLA-RISA
Texas A&M University

RICHARD T. HISE
Texas A&M University

L. MURPHY SMITH
Murray State University



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

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Understanding the International
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**Julian E. Gaspar, Antonio Arreola-Risa,
Leonard Bierman, Richard T. Hise, James W.
Kolari, and L. Murphy Smith**

Vice President, General Manager, Social Science &
Qualitative Business: Erin Joyner

Product Director: Jason Fremder

Product Manager: Mike Roche

Content Developer: John Rich

Product Assistant: Jamie Mack

Marketing Director: Kristen Hurd

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Marketing Coordinator: Christopher Walz

Art and Cover Direction, Production
Management, and Composition:
Lumina Datamatics Inc.

Intellectual Property

Analyst: Diane Garrity

Project Manager: Sarah Shainwald

Manufacturing Planner: Ron Montgomery

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preface

Business is global in nature! Opening the door to global business, however, involves many challenges for both instructors and students. The goal of *Introduction to Global Business* is to provide the keys to success that will lead to a rewarding educational experience and set the stage for pursuing a successful domestic or international business career. Any business, big or small, is fraught with risk, and unless students have a clear understanding of the global business environment, they will be taking unnecessary risk, and such risk could lead to failure. The global business environment is rapidly changing. Understanding the foundations of globalization—shift in geopolitical alliances, active role of global policy institutions, and advances in information technology—is also crucial to business success. Gaspar et al. *Introduction to Global Business, 2e* introduces comprehensively the foundational and functional tools to better prepare students for the global business landscape. As part of that functional approach, the text flows smoothly and clearly from concept to application, asking students to implement their learning into real-world personal and professional applications. The purpose of this book is to introduce students to the fundamentals of globalization—and in a way that is interesting, relevant, and engaging, in the hope that they may develop the knowledge for a successful business career.

A Team of Experts Can Make a Difference

The introduction to global business course covers a lot of ground, starting with the foundations of global business, moving on to the global business environment, and ending with global business strategy and management. We recognize that it is a challenge for students to understand how these major issues of global business are interrelated, and it is a challenge for an instructor to cover all these areas with equal amounts of enthusiasm and expertise. Other introduction to global business texts are written by authors who have expertise in one, two, or three functional areas. One aspect that makes our book unique is our author team of six functional area experts. Our specialized author team introduces globalization through unparalleled scholarship and world-view presentation of the fundamental pillars of the global landscape—culture, economic development, ethics, and information technology. For the past three years, we have met regularly as a team to share ideas, revise the manuscript, examine market feedback, and make sure that we created a cohesive, comprehensive, authoritative presentation of global business that is unparalleled in the market. Helping us all the way in this process—making sure that the material is presented consistently and clearly—has been our lead author. He has taught thousands of introduction to global business students and understands the challenges they and you, the instructor, face.

Goals and Key Themes of the Book

Throughout the planning and writing of *Introduction to Global Business 2e*, we have sought and listened to the advice of instructors across the country that have taught this course and used our first edition for many years. We also sought student feedback to be sure that the content is appealing and relevant to them. As a result, the features of this book have been carefully designed to respond to contemporary student and instructor needs. Anyone who listens to the news and follows current business events knows that contemporary business

is global in nature, regardless where it is conducted, and is heavily influenced by cultural diversity, economic development, enforcement of ethical standards, and advances in information technology.

Accessible, Relevant Text

Since this is an introductory business text, we have aimed to keep the narrative conversational and concise. Reviewers have commented positively about the readability of the text. We hope this text will be “user-friendly” so that students will read the chapters and come to class prepared. Every aspect of *Introduction to Global Business* aims at getting the reader to think deeply about the subject—the foundations and environment of global business as well as global business entry strategies and management. Our primary goal is to help the reader fully appreciate the fundamentals of global business and pursue a career—either as an entrepreneur or as an employee.

Key Features of the Text

Chapter Openers

Each chapter begins with an *outline* and a list of *learning objectives* to help direct student reading. The learning objectives are repeated in each section of the chapters so that students can map their progress through the chapter. The chapter summary is also organized by the learning objectives to help students retain their focus on key concepts and issues.

Chapter Opening Vignettes

Each chapter opens with a short but interesting story—something that students can relate to easily—that corresponds to the chapter’s topic. Within the chapter, reference is made to the chapter openers to connect the opening story to chapter content.

Theme Boxed Features

Each chapter also includes two boxes that deal with one of the four themes, *Culture*, *Economic Developments*, *Ethics*, and *Information Technology* that is relevant to that chapter. Every box concludes with questions that encourage students to think about what they have read and can lead to interesting in-class discussion.

Graphics, Color, and Real Examples

The layout of the book has been designed for clarity, with an uncluttered, sophisticated look. At the same time, this streamlined approach is enhanced with color and graphics meant to heighten interest in the topics and focus the reader’s attention on the most important globalization concepts. Real-world examples are used throughout the text to show how the topic at hand has an impact on big and small businesses. The important role that culture, economics, ethics, and information technology play in the future of business should stand out because of these features.

Margin Notes

The introduction to global business course is packed with terms that may be new to students. To make this new vocabulary more accessible, all new terms appear in bold type in the chapters and are defined clearly in the text, margin notes, and the comprehensive glossary at the end of the text.

Reality Check

Each learning objective section ends with a Reality Check, questioning the impact that section's learning objective has had on the students. By bringing global business issues to a personal level, students are more likely to be engaged in the subject.

End-of-Chapter Pedagogy

The end-of-chapter pedagogy carefully reinforces the relevance of chapter content as well as the learning terminology, concepts, business environment, operations, and strategy. A menu of assignments allows instructors to choose which activities are most appropriate for their courses.

- **Chapter Summary** Each chapter summary is organized according to the learning objectives. By the time students finish going through the summary, they will have read the learning objectives at least three times and, hopefully, will know where to find the required information related to them.
- **Chapter Questions** At least one question per learning objective is assigned at the end of each chapter. The objective is to help students recall global business concepts, understand how these concepts are applied, and challenge students to use judgment when developing their answers.
- **Mini-cases** Brief case studies highlight specific companies to help bring the chapter concepts alive.
- **Point-Counterpoint** Honing in on the necessary critical thinking skills to make intelligent and ethical business decisions, the point-counterpoint provides insight into the varying perspectives of a controversial business issue and asks students to make choices and support their decisions.
- **Interpreting Global Business News** Based on typical and/or current global business news items that readers would generally find in periodicals such as *The Wall Street Journal*, *Financial Times*, *Bloomberg Businessweek*, *The Economist*, and so forth; students must interpret the meaning of the news items using their understanding of the material covered in that chapter.
- **Portfolio Projects** To help students build their own business portfolios, one or both of the Portfolio Projects may be assigned as individual or group activities that span the course. The objective of Exploring Your Own Case in Point is to encourage and enable each student to conduct a comprehensive analysis of a large multinational company (e.g., a Fortune 500 or Financial Times Global 500 company). Each student selects a company that is publicly traded and obtains information that is readily available on the Web and from library sources. By answering chapter-specific questions in these sections, the student will have conducted a comprehensive analysis of the company by the end of the course. The questions in Starting Your Own Business are intended to provide each student with the opportunity to act as an entrepreneur and put together a comprehensive international business plan—the first steps in the start-up of a new enterprise. The objective here is to enable students to become successful global entrepreneurs by helping them to establish clear business goals, strategies, and methods of international operation.

Teaching and Learning Resources

For Instructors

MindTap

MindTap is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing you to measure skills and outcomes with ease.

- **Personalize Teaching:** Becomes yours with a Learning Path that is built with key student objectives. Control what students see and when they see it. Use it as is or match it to your syllabus exactly—hide, rearrange, add, and create your own content.
- **Guide Students:** A unique Learning Path of relevant readings, multimedia, and activities that move students up the learning taxonomy from basic knowledge and comprehension to analysis and application.
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By combining readings, multimedia, activities, and assessments into a singular Learning Path, MindTap guides students through their course with ease and engagement. Instructors personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the MindTap framework seamlessly with Learning Management Systems.

Instructor's Manual

The Instructor's Manual, available via download from the companion Website, contains such elements as chapter and lecture outlines, teaching objectives that mirror the student learning objectives, discussion starters and reality check discussion guides, synopsis and answers to the *Ethical Perspectives* and the *Economic Perspectives* features, and answers and guided responses to all of the end-of-chapter content.

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Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to:

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PowerPoint® presentation

The PowerPoint, available via download from the companion Website, helps bring lectures to life with visual images and lecture points specific to each chapter.

DVD Guide

The DVD guide, available via download from the companion Website, provides fantastic overviews and discussion questions based on the videos available on the accompanying DVD (sent separately from the IRCD).

Global Business DVD

This compilation of BBC and CBS video segments feature real-world footage from China, India, South America, United Kingdom, and the United States of America. Your students will discover critical issues effecting the global business environment, such as expatriation, outsourcing, international trade, international agriculture, and economic booms and busts. Through these real-world examples, students will start to see the true nature of global business and their places within the world community.

Companion Website

This dynamic interactive learning tool includes student and instructor resources. For instructors, you can download electronic versions of the instructor supplements from the password-protected section of the site, including the Instructor's Resource Manual, Test Bank, and PowerPoint® presentations. To access companion resources, visit www.cengagebrain.com. On the CengageBrain.com homepage, use the search box at the top of the page to search for the ISBN of your title (from the back cover of your book). This will take you to the product page where you will find free companion resources.

Student Learning Resources

MindTap

MindTap™ Management for Gaspar/Arreola-Risa/Bierman/Hise/Kolari/Smith Global Business, 2nd Edition provides you with the tools you need to better manage your limited time— you can complete assignments whenever and wherever you are ready to learn with course material specially customized for you by your instructor and streamlined in one proven, easy-to-use interface. With an array of tools and apps—from note taking to flash-cards—you'll get a true understanding of course concepts, helping you to achieve better grades and setting the groundwork for your future courses. Access to this product is valid for six months of usage.

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Daria Panina
Texas A&M University

Joseph Petrick
Wright State University

Paul Dowling
University of Utah

Mark Fenton
University of Wisconsin-Stout

P. Roberto Garcia
Indiana University

Debora Gilliard
Metropolitan State College-Denver

Kurt Gleichauf
University of North Carolina-Charlotte

Robert Goldberg
Northeastern University

Andrew Gross
Cleveland State University

Yu-Feng Lee
New Mexico State University

Christine Probett
San Diego State University

Charlie Shi
Diablo Valley College

Richard Sjolander
University of West Florida

Jon Steele
Mid-State Technical College

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Introduction to Global Business
Gaspar/Arreola-Risa/Bierman/Hise/Kolari/Smith
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about the authors

Julian Gaspar

Dr. Julian Gaspar is the director of Texas A&M University's Center for International Business Education and Research (CIBER) and is responsible for internationalizing Mays Business School's academic programs and faculty research. As the director of one of America's 17 CIBER business schools, Dr. Gaspar's mission is to infuse and promote internationalization in business courses. He is the architect of institutionalizing internationalization in Mays business curriculum through international business course design and development, and implementation of overseas study programs. Dr. Gaspar teaches international finance and conducts the study abroad program with Mays students in China, Europe, and India. Dr. Gaspar is an international economist by training with three decades of international expertise in country risk analysis, project economic and financial analysis, and financial and industrial restructuring of emerging economies. His corporate experience stems from his years of work with Bank of America in Tokyo and San Francisco, where he conducted country risk analysis and researched and analyzed debt problems of developing countries. And, during his tenure as an international economist with the World Bank Group in Washington, DC, Dr. Gaspar worked on analyzing investment projects in Asia and designing financial and industrial restructuring programs for Poland and Cyprus. Dr. Gaspar received his Ph.D in international and monetary economics from Georgetown University, an MBA from Indiana University, and a B.S. in chemical engineering from the University of Madras, India. Dr. Gaspar consults with the U.S. Department of State on business education reform in Central Asia and Russia. Dr. Gaspar is the lead author of two textbooks—*Introduction to Business* and *Introduction to Global Business*.

Antonio Arreola-Risa

Dr. Arreola-Risa is an associate professor in the Information & Operations Management Department, Mays Business School, Texas A&M University. He received his B.S. in industrial and systems engineering from Monterrey Institute of Technology (ITESM) in Mexico, his M.S. in industrial engineering from Georgia Institute of Technology, and his M.S. and Ph.D. in operations management from Stanford University. Prior to joining Texas A&M University, Dr. Arreola-Risa worked as a production and inventory control analyst at a manufacturing firm, and later he taught at ITESM and at the University of Washington in Seattle. His primary research, teaching, and consulting interests are in production-inventory systems as well as in service operations, with emphasis on enterprise resource planning, supply-chain management, and health care systems management. He currently teaches undergraduate, masters, and doctoral courses. He has also lectured in executive education programs and consulted for numerous companies in the United States and abroad. Dr. Arreola-Risa is a member of the Decision Sciences Institute, the Institute of Industrial Engineers, and the Institute for Operations Research and the Management Sciences. Some of his research can be found in the academic journals *Decision Sciences*, *European Journal of Operational Research*, *IIE Transactions*, *Management Science*, *Naval Research Logistics*, and *Production and Operations Management*. He is the coauthor of the textbooks *Linear Programming: An Introduction to Quantitative Decision Making* (Thomson Learning Inc., 2003) and *Introduction to Business* (Houghton Mifflin Company, 2006).

Leonard Bierman

Professor Bierman does research and writing in the areas of strategic management and human resource management, with particular emphasis on topics related to corporate governance and professional service firms. Earlier in his career he held positions in the federal government at the EEOC, the U.S. Department of Labor and the U.S. International Trade Commission.

Richard T. Hise

Richard T. Hise is Professor Emeritus of Marketing, Texas A&M University. He is the author of seven textbooks and more than eighty articles in marketing strategy, product planning and development, and international marketing. His bio is contained in *Who's Who in America* and *Who's Who in International Business Education and Research*.

James W. Kolari

Professor Kolari has taught financial markets and institutions at Texas A&M University and has been active in international education, consulting, and executive education. In 1994 he was awarded the JP Morgan Chase Professorship in Finance in the Mays Business School at Texas A&M University. In 1986 he was a Fulbright Scholar at the University of Helsinki and worked with the Bank of Finland and other large banking organizations there. He has served as a faculty fellow with the Mortgage Bankers Association of America and a visiting scholar at the Federal Reserve Bank of Chicago in 1982, in addition to being a consultant to the U.S. Small Business Administration, American Bankers Association, Independent Bankers Association of America, and numerous banks and other organizations. In recent years he has worked as a senior research fellow at the Swedish School of Business and Economics (Hanken), Vaasa, Finland. Previously, he served as an advisor on the North American Free Trade Agreement for the State of Texas, a consultant for the Mexican government in financing technology, and a member of the Academy of Sciences for Higher Education in Russia. With over 100 articles published in refereed journals, numerous other papers and monographs, eleven coauthored books, and over 100 competitive papers presented at academic conferences, he ranks in the top 1 to 2 percent of finance scholars in the United States, according to recently published guides of research productivity among finance professors. His papers have appeared in such domestic and international journals as the *Journal of Finance*, *Review of Financial Studies*, *Journal of Business*, *Review of Economics and Statistics*, *Journal of Money, Credit and Banking*, *Journal of Financial Research*, *Journal of Banking and Finance*, *Real Estate Economics*, *Journal of Economic Dynamics and Control*, and the *Scandinavian Journal of Economics*. Papers in Russian, Finnish, Dutch, and Italian have appeared outside of the United States. He is a coauthor of leading college textbooks in commercial banking.

L. Murphy Smith

Dr. L. Murphy Smith, CPA, is the David and Ashley Dill Distinguished Professor of Accounting at Murray State University. Dr. Smith's academic record includes numerous professional journal articles, research grants, books, and professional meeting presentations in the United States and abroad. His work has been cited in various news media, including *Fortune*, *USA Today*, and *The Wall Street Journal*. He has received numerous teaching and research awards, including the Outstanding Researcher Award from the American Accounting Association Strategic and Emerging Technologies Section and the Outstanding Educator Award from the Texas Society of CPAs. He ranks in the top 1 percent of authors on Social Sciences Research Network (SSRN.com) by downloaded articles. During his career, he has held a number of leadership positions in academic and professional organizations, for example, the President of the American Accounting Association Gender Issues and Work-Life Balance Section. His major research interests are ethics, international accounting, systems, and auditing. Dr. Smith serves on several journal editorial boards, and his research has appeared in leading journals such as *Accounting Horizons*, *Contemporary Accounting Research*, *Advances in Accounting*, *International Journal of Economics and Accounting*, and *Research on Professional Responsibility and Ethics in Accounting*.



Foundations of Global Business



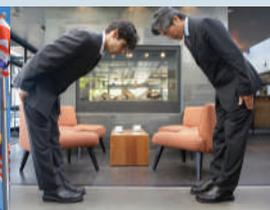
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CHAPTER 1

The Rise of Globalization

CHAPTER 2

The Evolution of International Business

CHAPTER 3

Regional Economic Integration

CHAPTER 4

The International Flow of Funds and
Exchange Rates

CH

1

The Rise of Globalization



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After studying this chapter, you should be able to:

- LO-1** Explain the characteristics of globalization and describe how it functions.
- LO-2** Identify how major international institutions facilitate globalization.
- LO-3** Evaluate the need for strong and transparent institutions that can adapt to global competition.
- LO-4** Describe the key policy measures that make globalization sustainable.
- LO-5** Describe the role of information technology in bridging the global digital divide.
- LO-6** Describe the validity of the anti-globalization argument.
- LO-7** Explain the case made to temporarily support those people negatively affected by globalization.

david pearson/Alamy

Global Credit Crisis Puts Globalization at Risk!

The global credit crisis, a sudden freeze in short, medium, and long-term lending by banks to regular customers and other banks that began in September 2008 with the collapse of Lehman Brothers (an American investment bank headquartered in New York), led to a global economic recession. This event had a rippling impact on many economies worldwide (several countries in Europe are still recovering from that shock) triggering a disruption in world trade, capital, and labor flows, and putting globalization in danger. Since the early 1980s, increased financial deregulation has made credit markets around the globe more intertwined; national governments, their residents and corporations were able to borrow, spend, and invest abroad more freely. Furthermore, imports of commodities (like crude oil and iron ore), goods, and services have grown rapidly. After rising steadily for over a decade, world trade fell drastically in 2009 as the global economy slowed. It has recovered since then by exceeding the precrisis level during 2011. Countries face contracting export markets, falling export prices, and vanishing trade finance and migration flows.

A close analysis of the impact of the global credit crisis on four diverse countries in different regions of the world shows how interdependent and integrated the global economy has become (see Exhibit 1.1). Commodity exporters, such as Burkina Faso and Ukraine, saw export prices and volume drop, while Singapore's electronic component manufacturers and Ireland's information technology service sector witnessed a massive slump in external demand for their goods and services.

Cotton accounts for about 60 percent of exports in Burkina Faso, sub-Saharan Africa's largest cotton producer. The cotton sector directly employs some 700,000 people, or 17 percent of the country's population. Indirectly, many more people gain from the cotton sector by providing services like housing, retailing, and restaurants. The global credit crisis depressed world demand for textiles and apparel, especially in developed countries; this in turn reduced the demand for Burkina Faso's cotton. The net result was a loss of jobs and lower living standards in Burkina Faso.

Ukraine, a former Soviet bloc country, did not fare much better. Ukraine's economy, the world's eighth-largest steel producer, depends heavily upon developments in the global steel sector. With the fall in global steel demand, prices fell correspondingly and Ukraine's economy was dragged down as well.

Singapore is a highly open country (i.e., an economy primarily based upon free trade and free markets) and about one-third of its economic output has been directly affected by demand for consumer electronics, information technology products, and services from industrialized countries. With the global recession, Singapore's electronics and information technology exports stalled—and so did its economy.

EXHIBIT 1.1



(Source: The International Monetary Fund, "Deep Impact," *Finance & Development*, March 2009, pp. 13–18)

Beginning in the mid 1990s, Ireland's economy grew rapidly, largely because of its free market and open trade and investment policies, which were boosted significantly by low-cost borrowing from abroad. In the resulting economic boom, Ireland became known as the "Celtic Tiger" and was transformed from a land of emigrants to a land that attracted immigrants, especially from Poland. Industries like information technology and housing construction flourished. But the global financial crisis suddenly made it extremely difficult for Ireland to service its foreign loans and continue to grow its economy. Soon emigration increased, immigration slowed, and the economy stalled.

In the wake of financial shock, there was great concern that policy makers may resort to nationalist or protectionist policies to shelter domestic companies by curtailing world trade and investment and bringing the globalization process to a halt. Fortunately, with the support of international organizations, such as the International Monetary Fund, the World Bank, and the World Trade Organization and pro-growth stimulus policies followed by the United States and emerging economies of China and India, globalization has stabilized.

Introduction

The opening vignette illustrates that we live in a highly integrated and interdependent world. The credit crisis had an impact not only on residents of the country of its origin—the United States—but also on farmers in Burkina Faso, miners and steel workers in Ukraine, assembly-line workers in Singapore, and white-collar workers at information technology firms in Ireland. Business has become increasingly global in nature, so that the success of businesses—big and small—depends not only on the domestic economic environment but also on developments abroad.

1-1 What Is Globalization?

Globalization encompasses the socioeconomic *reform process* of eliminating trade, investment, information technology, and cultural and political barriers across countries, which could lead to increased economic growth and geopolitical integration and interdependence among nations of the world. Details will be discussed in the remainder of this chapter.

Consider a real-world situation. Imagine sitting and relaxing on a leather couch in your house or apartment, sipping a cup of hot coffee or tea, and watching a television show on the Discovery Channel. Chances are high that the leather couch you are seated on was made in Italy, the cup was made by Corning of the United States, the coffee came from Colombia but was processed by Nestlé of Switzerland, or the tea came from India and was processed by Lipton's of the United Kingdom, the Sony television was manufactured in Japan, and the Discovery Channel program was broadcast live from Masai Mara in Kenya. Perhaps the clothes that you may be wearing are from China.

This cultural lifestyle has been made possible by certain key aspects of globalization: the elimination of barriers to trade, investment, culture, and information technology that separate countries. It also reflects the growing integration and interdependence among people, communities, and economies around the world. Globalization has made it possible for goods, services, capital, technology, and cultures to cross national borders.

News media may give the impression that globalization has only been a relatively recent phenomenon, but that is not the case. The fundamental basis of globalization represents freer international trade and investment or the free flow of goods and services (including cultural and belief systems) between countries. Thus, globalization and international trade and investment are interlinked. However, globalization reaches further. It includes a process of integrating the nations of the world so that they become more economically efficient and interdependent. That process has been based upon changes in national policies that aim to promote private enterprise and reduce or eliminate economic, cultural, and social barriers between countries. These policies could include: moving toward strengthening the role of the private sector; supporting free-market pricing; eliminating barriers to free movement of goods, services, capital, and information technology; and promoting institutions that enforce transparency, disclosure, and the rule of law. Therefore, the actions taken by one country could affect others.

For example, the dawn of globalization can be traced back to the fifteenth century, when the Portuguese navigator and explorer Vasco da Gama made voyages to Kerala State, on India's West coast, in search of spices to satisfy

LO-1

Explain the characteristics of globalization and describe how it operates.

globalization

the socioeconomic reform process of eliminating trade, investment, information technology, and cultural and political barriers across countries, which in turn can lead to increased economic growth and geopolitical integration and interdependence among nations of the world



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International organizations facilitate globalization. Tea leaves harvested for exports from Sri Lanka.

European palates. At about the same time, Arab and Chinese traders were making similar voyages to trade in spices and silk. Goods, people, and ideas have been traveling around the globe ever since that time. More recently, however, globalization began to *accelerate* after World War II, beginning in 1944 with the creation and implementation of open-market policies advocated by such international institutions as the World Bank, the International Monetary Fund, and, a few years later, by the General Agreement on Tariffs and Trade (GATT), now called the World Trade Organization. While most ascertain that globalization can be good for society as a whole, much of its value depends upon how the “rules of the game” are implemented: fair trade, flexible exchange rates, open foreign investment policies, and harnessing the Internet (including social media outlets such as Facebook), for example, all can influence the results. These changes could bring about “openness, accessibility, accountability, connectivity, democracy, and decentralization”—all the “soft” qualities essential to globalization. Yet, globalization does create “winners” and “losers.”

1-1a Emerging Economies

Prior to 2000, globalization generally implied that business expanded from developed or industrialized countries to developing or emerging economies. When the dot-com bubble burst in 2000, however, the flow of business had moved in both directions and also increasingly from one developing country to another. For example, according to the World Bank,² the value of merchandise exports between East Asia and South Asia increased at an average annual rate of 26.2 percent between 2000 and 2012, because of lowering of tariff and nontariff barriers within the region, while exports to high income importers like Japan, Europe, and the United States grew by 14.4 percent only over that same period. Also, China’s exports to East Asia and South Asia grew by 24.8 and 30.7 percent respectively over the same period whereas exports to high income importers grew by only 17.2 percent. This increase led to much faster economic growth rates in emerging Asian economies than in their western counterparts, and this growth could continue for a good while. Business today centers around “competing with everyone from everywhere for everything,” according to the Boston Consulting Group.

The growing number of companies from **emerging economies**—countries that have been moving toward more open trade and free-market policies—that appear in the *Financial Times Global 500* latest³ ranking of the world’s biggest firms indicates this is true. The recent (2014) list included 59 companies, from the “BRIC economies” (Brazil, Russia, India, and China, discussed more in Chapter 2), up from 32 in 2002 and forecast by analysts to rise to fully one-third of the *Financial Times Global 500* list by 2020. The past decade has been to a large degree the success story of emerging economies. In the recent past, there has been a sharp increase in the number of emerging-market companies acquiring established businesses and brands in Europe and the United States (e.g., Tata-Corus, Mittal-Arcelor, Lenovo-IBM), clearly demonstrating that “globalization” will no longer simply be another word for “Westernization” or “Americanization.”

The world’s center of economic gravity is shifting toward emerging economies. Purchase a mobile phone or laptop computer and you will find it most likely was made in China. Call a customer service helpline for computer service and personnel outside of the United States may answer the call. Emerging economies are no longer sources of inexpensive labor; they are becoming hotbeds of innovation in diverse fields, such as telecommunications, automobile manufacturing, biotechnology, and health care. Increasingly, more research and development has recently been conducted in emerging economies.

Companies in emerging economies are redesigning products without sacrificing quality to reduce costs—not by 10 to 20 percent—but up to 90 percent, such as a no-frills car for \$3,000 (the Tata “Nano”) and \$300 laptop computers from China’s Lenovo. This comes as good news for the billions of people who live in emerging economies. But cheaper goods and services will help industrialized countries’ consumers as well, especially because these consumers are likely to face years of slow income growth, as shown in Exhibit 1.2. Innovation in emerging economies will enrich rather than hinder innovation in rich countries.

emerging economies

countries that are implementing more open trade and free-market policies

EXHIBIT 1.2 STRATEGIC COMPETITORS 2020

World's Ten Largest Economies: PPP Basis (US\$2012)

	Country	PPP GNI (billions)		Real GNI Growth		PPP GNI (billions) 2020	Population (millions) 2012	Population Growth rate 2012–2020	Population (millions) 2020	PPP GNI per Capita (\$) 2012	PPP GNI per Capita (\$) 2020
		2014	2020	2012–2020	p.a. est.						
1	United States	16,515	19,656	2.20%	2.20%	19,656	314	0.9%	337.3	52,610	58,268
2	China	12,206	21,769	7.50%	7.50%	21,769	1,351	0.3%	1,383.8	9,040	15,732
3	India	4,730	7,828	6.50%	6.50%	7,828	1,237	1.2%	1,360.9	3,820	5,752
4	Japan	4,688	5,281	1.50%	1.50%	5,281	128	-0.3%	125.0	36,750	42,261
5	Germany	3,516	4,120	2.00%	2.00%	4,120	80	-0.2%	78.7	43,720	52,326
6	Russia	3,273	4,836	5.00%	5.00%	4,836	144	-0.2%	141.7	22,800	34,124
7	France	2,458	2,880	2.00%	2.00%	2,880	66	0.5%	68.7	37,420	41,929
8	Brazil	2,291	3,385	5.00%	5.00%	3,385	199	0.7%	210.4	11,530	16,086
9	United Kingdom	2,266	2,655	2.00%	2.00%	2,655	64	0.4%	66.1	35,620	40,180
10	Italy	2,066	2,421	2.00%	2.00%	2,421	60	0.1%	60.5	34,700	40,023
	Euro Area (18)	12,354	14,475	2.00%	2.00%	14,475	331	0.20%	336.3	37,299	43,037
	World TOTAL	85,987	106,413	2.70%	2.70%	106,413	7,044	1.00%	7,627.6	12,207	13,951

Source: The World Bank: *World Development Indicators*, 2014, pp. 12–16.

Note: The PPP conversion factor is the number of units of a country's currency that is required to buy the same amount of goods and services in the domestic market that a U.S. dollar would buy in the United States.