Chapter 1

Globalization

**Learning Objectives:**

1. Identify the types of companies active in international business.

2. Explain globalization and how it affects markets and production.

3. Detail the forces that are driving globalization.

4. Outline the debate over globalization’s impact on jobs and wages.

5. Summarize the debate over income inequality.

6. Outline the debate over culture, sovereignty, and the environment.

7. Describe the global business environment and its main elements.

**Chapter Outline:**

Introduction

International Business Involves Us All

Technology Makes It Possible

Global Talent Makes It Happen

Key Players in International Business

Multinational Corporations

Entrepreneurs and Small Businesses

What Is Globalization?

Globalization of Markets

Reduces Marketing Costs

Creates New Market Opportunities

Levels Uneven Income Streams

Local Buyers’ Needs

Global Sustainability

Three Markets, Three Strategies

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

Other International Organizations

Regional Trade Agreements

Trade and National Output

Technological Innovation

E-Mail and Videoconferencing

The Internet

Company Intranets and Extranets

Advancements in Transportation Technologies

Measuring Globalization

Debate Over Jobs and Wages

Against Globalization

Eliminates Jobs in Developed Nations

Lowers Wages in Developed Nations

Exploits Workers in Developing Nations

For Globalization

Increases Wealth and Efficiency in All Nations

Generates Labor Market Flexibility in Developed Nations

Advances the Economies of Developing Nations

Summary of the Jobs and Wages Debate

Debate Over Income Inequality

Inequality within Nations

Inequality between Nations

Global Inequality

Summary of the Income Inequality Debate

Debate Over Culture, Sovereignty and the Environment

Globalization and Culture

Globalization and National Sovereignty

Globalization: Menace to Democracy?

Globalization: Guardian of Democracy?

Globalization and the Environment

The Keys to Global Success

The Global Business Environment

The Road Ahead for International Business

Bottom Line for Business

A comprehensive set of specially designed PowerPoint slides 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.

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| **Lecture Outline** |  |

I. INTRODUCTION

Globalization is reshaping 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.

1. International Business Involves Us All

1. Each of us encounters the result of international business transactions every day whether we realize it or not.

2. *International business* is any commercial transaction that crosses the borders of two or more nations.

3. *Imports* are goods and services purchased abroad and brought into a country. *Exports* are goods and services sold abroad and sent out of a country.

1. Technology Makes It Possible

1. Technology is a remarkable facilitator of international business and change.

2. *E-business (e-commerce)* is the use of computer networks to purchase, sell, or exchange products; service customers; and collaborate with partners.

1. Global Talent Makes It Happen

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*.

II. KEY PLAYERS IN INTERNATIONAL BUSINESS

Large firms from developed nations once dominated, but firms from Brazil, China, and India now play a bigger role. Technological advancements allow small and midsize companies to better compete.

A. Multinational Corporations

A *multinational corporation (MNC)* has direct investments abroad in multiple countries. They generate significant jobs, investment, and tax revenue for the regions and nations they enter.

1. Profiling the largest multinationals

1. Some MNCs have more employees than small nations have citizens (e.g., Walmart has 2.2 million employees globally).

b. If Walmart were a country, it would rank third behind Norway in terms of economic power (Figure 1.1).

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 adopts a global perspective and engages in international business from or near its inception.
3. Some small Internet companies reach customers solely through the Web (e.g., Vellus Products, Weekend in Italy).

III. WHAT IS GLOBALIZATION?

*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.”

A. Globalization of Markets

* 1. Convergence in buyer preferences in markets around the world

1. Reduces marketing costs by *standardizing* activities
2. Creates market opportunities abroad if home is small or saturated
3. Levels uneven income streams for global seasonal products
4. Yet companies must not overlook local buyers’ needs
5. Need for *global sustainability*—development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

2. Global Sustainability, Three Markets, Three Strategies. The world’s 7 billion people live in three types of markets, yet all require companies to act in a sustainable manner:

a. *Developed markets* are solidly middle class and people can consume almost any product desired. A firm may use the latest technologies to develop sustainable products in a sustainable manner.

b. *Emerging markets* are racing to catch up to rich nations and are overloading infrastructures. Resource constraints can force companies to develop sustainable production methods.

c. *Traditional markets* have mostly rural populations for whom poverty and corruption prevail. Here, sustainability means teaching safe farming practices, environmental stewardship, and disease awareness.

B. Globalization of Production

* 1. Dispersal of production activities to locations that help a company to minimize costs or maximize quality

1. Access lower-cost workers to cut overall production costs
2. Access technical expertise
3. Access production inputs unavailable or more costly at home

IV. FORCES DRIVING GLOBALIZATION

Forces increase competition among nations by leveling the global business playing field.

A. Falling Barriers to Trade and Investment

*1947 General Agreement on Tariffs and Trade (GATT)* was 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

a. *World Trade Organization (WTO)* is the international organization that enforces the rules of international trade.

b. WTO goals: (1) to help the free flow of trade, (2) help negotiate the further 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, European Union).

3. Trade and National Output

a. Effect of the WTO and regional trade pacts is greater global trade and cross-border investing (Map 1.1).

1. Trade growth has been faster than world output.
2. *Gross Domestic Product (GDP)* is the value of all goods and services produced by a domestic economy over a one-year period. *Gross national product (GNP)* adds income from international activities.

B. Technological Innovation

Technology accelerates globalization by making it easier, faster, and less costly to move data, goods, and equipment around the world.

* 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 or safety reasons.

* 1. The Internet

a. Helps firms sharpen forecasting, lower inventories, improve communication with suppliers, and communicate quickly and cheaply with distant managers

b. Reduces the cost of reaching an international customer base, which is essential for the competitiveness of small firms

* 1. Company intranets and extranets

a. *Intranets* are private networks of company Web sites and other information sources that allow employee 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.

* 1. Advancements in transportation technologies

a. Make global shipping more efficient and dependable (e.g., GPS)

1. Measuring Globalization

1. The KOF Swiss Economic Institute’s Globalization Index ranks nations on their economic, social, and political engagement.

2. Richest nations are the most global, with many in Europe. The United States ranked 32nd (see Table 1.1).

3. The least global nations are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Low technological connectivity slows global integration.

V. DEBATE OVER JOBS AND WAGES

A. Against Globalization

1. *Eliminates jobs in developed nations* as good-paying manufacturing jobs go abroad to developing countries. Low-priced goods are not worth lost jobs.

2. *Lowers wages in developed nations* by causing worker dislocation that gradually lowers wages. New jobs that replace lost manufacturing jobs often pay less.

3. *Exploits workers in developing nations* who work cheaply servicing western consumers.

###### B. For Globalization

1. *Increases wealth and efficiency in all nations* because trade openness raises output. Firms grow more efficient and pass savings on to consumers.

2. *Generates labor market flexibility in developed nations* that allows an economy to rapidly deploy labor where demand is relatively great.

3. *Advances the economies of developing nations* by injecting capital that creates higher-paying jobs, which expands the middle class and raises standards of living.

C. Summary: Although globalization eliminates jobs in some economic sectors, it creates jobs in other sectors. Gains in national economies are worth lost livelihoods that individuals may suffer.

D. Globalization’s Impact on Labor, the Environment, and Markets

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. 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.

VI. DEBATE OVER INCOME INEQUALITY

A. Inequality within Nations

1. Globalization critics claim that income disparity in rich nations is increasing as firms move factory jobs to poor nations.

2. Evidence is mixed, but poor people in developing nations seem to benefit from an open economy.

B. Inequality between Nations

1. Globalization opponents say it is widening the gap in average incomes between rich and poor nations.

2. Looking closely at the evidence, we see that open nations are benefiting from trade whereas closed ones are not.

C. Global Inequality

1. Opponents of globalization say it is widening income inequality among all people of the world.

2. Studies tend to agree that global inequality has fallen in recent decades, though they disagree on the extent of the decline.

D. Summary of the Income Inequality Debate

VII. DEBATE OVER CULTURE, SOVEREIGNTY AND THE ENVIRONMENT

A. Globalization and Culture

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.

B. Globalization and National Sovereignty

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 “international” 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.

VIII. THE KEYS TO GLOBAL SUCCESS

A. Communicate effectively

B. Know the customer

C. Emphasize global awareness

D. Market effectively

E. Monitor the global environment

IX. THE GLOBAL BUSINESS ENVIRONMENT

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. It also *increases competition* everywhere, forcing companies to be 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. The *international business environment* influences how business is conducted so firms must closely monitor events.

4. Context of *international business management* is defined by the characteristics of the national and international business environments. Managers must abide by the prevailing rules in each market in which it operates.

B. The Road Ahead for International Business

Part 1 (Chapter 1): Globalization

Part 2 (Chapters 2–4): National Business Environments

Parts 3 and 4 (Chapters 5–8 and 9–10): International Business Environment

Part 5 (Chapters 11–16): International Business Management

X. BOTTOM LINE FOR BUSINESS

A. Harnessing Globalization’s Benefits

1. The most global nations tend to have the greatest equality, robust environmental protection, inclusive political systems, lowest levels of corruption, healthiest lifestyles, and be where women have achieved the most social, educational, and economic progress.

2. The debate has opened a dialogue on how globalization can be harnessed to make its benefits exceed its costs.

B. Intensified Competition

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. Wages and Jobs

1. Low wages are 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 enforce labor standards, help clarify environmental agreements, and research the environmental implications of trade agreements.

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| **Quick Study Questions** |  |

**Quick Study 1**

1. Q: *What is the value of goods and services that all nations of the world export every year?*

A: Goods worth $18.4 trillion and services worth 4.3 trillion.

2. Q: *A business that has direct investments in the form of marketing or manufacturing subsidiaries abroad in multiple countries is called a what?*

A: A business that has direct investments abroad in multiple countries is a multinational corporation (MNC).

3. Q: *A born global firm engages in international business from or near its inception and does what else?*

A: A born global firm also adopts a global perspective.

**Quick Study 2**

1. Q: *Globalization causes the institutions and economies of nations to become what?*

A: Globalization causes institutions and economies of nations to become more interdependent.

2. Q: *What benefits might a company obtain from the globalization of markets?*

A: Globalization of markets refers to convergence in buyer preferences in markets around the world. Potential benefits for companies include: (1) reduced marketing costs by standardizing activities, (2) market opportunities abroad if home market is small or saturated, and (3) levels an income stream by letting international sales offset domestic sales for a company selling a global seasonal product.

3. Q: *Sustainability is development that meets present needs without compromising what?*

A: Sustainability is development that meets present needs without compromising the ability of future generations to meet their own needs.

**Quick Study 3**

1. Q: *What global organizations have helped expand globalization?*

A: The 1947 GATT lowered trade barriers and made it cheaper and easier to ship goods across borders. In 1988 world merchandise trade was 20 times larger than in 1947; average tariffs dropped from 40 percent to 5 percent. A 1994 GATT revision created the WTO, which has the power to enforce international trade rules. Goals of the WTO are: (1) to help the free flow of trade, (2) help negotiate further opening of markets, and (3) settle trade disputes. 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. The World Bank and the International Monetary Fund have also helped expand globalization.

2. Q: *What technological innovations are helping to propel globalization?*

A: E-mail and videoconferencing speed information flows and ease the tasks of coordination and control. Firms use the Web to sharpen forecasting, lower inventories, and improve communication with suppliers, and to communicate with distant managers quickly, cheaply, and efficiently. The Web also reduces the cost of reaching international customers—important for the competitiveness of small firms. Company intranets allow employees to access information from distant locations to share best practices. Extranets give distributors and suppliers access to a company’s database so they can place orders or restock inventories electronically and automatically. Transportation advancements are facilitating globalization by making shipping more efficient and dependable.

3. Q: *What nations rank high in terms of globalization?*

A: Belgium is an example of a nation that ranks high in terms of globalization.

**Quick Study 4**

1. Q: *In the debate over jobs and wages, opponents of globalization say that it does what?*

A: Opponents state that globalization eliminates jobs in developed nations, exploits workers in developing countries, and lowers wages in developed nations.

2. Q: *In the debate over jobs and wages, supporters of globalization say that it does what?*

A: Supporters state that globalization generates labor market flexibility in developed nations and advances the economies of developing nations.

**Quick Study 5**

1. Q: *Evidence suggests that globalization can help developing nations boost incomes for their poorest citizens in what part of the debate over inequality?*

A: Inequality within nations

2. Q: *In the debate over inequality between nations, evidence suggests that developing nations that are open to trade and investment do what?*

A: Evidences suggests that developing nations that are open to trade and investment grow faster than rich nations.

3. Q: *Regarding the debate over global inequality, experts tend to agree on what?*

A: Experts tend to agree that inequality has fallen in recent decades.

**Quick Study 6**

1. Q: *People opposed to globalization say that it does what to national cultures?*

A: People opposed to globalization say that it homogenizes national cultures.

2. Q: *Regarding national sovereignty, opponents of globalization say that it does what?*

A: Opponents say that globalization helps supranational organizations gain power, may force nations to violate the rights of local and state governments, and undercuts the democratic process and individual liberty.

3. Q: *With regard to the physical environment, what do globalization supporters argue?*

A: Supporters argue that companies have invested in nations that were enacting stricter environmental rules; that few U.S. firms invest to obtain low-cost resources and then export finished goods to the United States; that firms care for the environment abroad to nurture future local markets for their goods and services.

**Quick Study 7**

1. Q: *It helps to think about international business as four elements that occur within a what?*

A: It is helpful to view international business as occurring within an integrated *global system* consisting of four main elements: (1) *Globalization* is a potent force transforming our societies and commercial activities. (2) Separate *national business environments*, including culture and systems of politics, law, and economics. (3) The *international business environment*, which is where the actions of consumers, workers, companies, financial institutions, and governments from different nations converge. (4) *International business management* which involves all the duties of management in a domestic setting, but which are complicated by a multitude of differences.

2. Q: *How does managing an international firm differ from managing a purely domestic business?*

A: International firms encounter unfamiliar societies. International managers must scan the globe for opportunities and threats. International firms may need to adapt practices or products to local conditions.

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| **Ethical Challenge** |  |

*You are the CEO of a business that sources, manufactures, and sells wood furniture. You pride yourself on the fact that you have strong commitment to global sustainability. Operating in South East Asia, India, and across Europe and North America, you have gradually developed an interlinked range of operations that grows trees, processes them, manufactures finished pieces, and sells them in your own stores. Your investments have, so far, been predominantly in the sales and marketing. The balance sheet seems to suggest that the growing and manufacturing elements of the business contribute 70 percent of your profit compared to 40 percent of your investment. The final assembly for manufacturing most of the furniture takes place in Jodhpur, India.*

1-5. *Identify the types of market where your three areas of activity are based.*

A: The tree growing and harvesting is taking place in a traditional market whereas the production is being undertaken in India, an emerging market. The sales and marketing is taking place in a developed market.

1-6. *Actual spending is 10 percent of your total investment in the tree production. Is this normal or ethical?*

Raw materials often account for a fraction of the overall investment and cost of a product. Costs would be based on local conditions. The business would be expected to contribute towards some form of environmental stewardship and be a responsible user of natural resources. The business would wish to stress issues such as sustainability and acquire international accreditation for their efforts in this area.

1-7. *India has seen rapid movement of population from rural areas to the cities. What are the implications for your business?*

A: The cities are being overloaded and their infrastructures are under enormous pressure. There is overcrowding, slum conditions, poor sanitation, and other services at breaking point. Increases in pay mean a greater demand for products and services; this in turn puts pressure back on the rural areas to provide essential foods.

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| **Teaming Up** |  |

*Imagine that you and several of your classmates form the government of a developing country. You want to encourage global investment, but you are divided on the probable implications to wages.*

1-8. *Outline and discuss the key advantages as far as pay is concerned for your population.*

A: Those in favor of globalization argue that globalization and international outsourcing help to advance developing nations’ economies. Jobs in business-process outsourcing (including financial, accounting, payroll, and benefits services) elevate standards of living. Comparatively, the work is not considered low-paying and instead represents a solid, middle-class job. The World Bank found that the higher occupational safety and health conditions, the greater the amount of foreign investment it attracted.

1-9. *Outline and discuss the major disadvantages in terms of pay for your population in attracting global business.*

A: Critics charge that globalization and international outsourcing exploit workers in low-wage nations. Global firms can outsource such work to emerging markets for a fraction of what they pay at home. So long as such economic disparities exist, international outsourcing will continue to be popular. However, pay rates are relative and they may well be attractive to the local population. Globalization critics also say companies locate operations to developing nations where labor regulations are least restrictive and, therefore, least costly. They argue that this diminishes labor’s bargaining power and labor laws in all countries as nations compete to attract international firms.

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| **Practicing International Management Case** |  |

**Chapter 1 - IO Interactive**

1. *Some say globalization is homogenizing the attitudes and spending habits of young consumers worldwide. As one journalist puts it, “It may still be conventional wisdom to ‘think globally and act locally,’ but in the youth market, it is increasingly a case of one size fits all.” Do you agree or disagree? Why or why not?*

A: Although attitudes and spending habits may be converging, there are still some aspects of video games to which viewers cannot relate for cultural reasons. For example, gamers may be presented with a scenario where young people are ‘selected’ and then given the difficult task of putting their characters through basic training exercises for the military. While this will not raise eyebrows in some countries such as the United States, it might not fit so well with gamers in Japan. For historical reasons, Japan has a very small military force of its own. Japanese viewers would perhaps rather play a game where young people are asked to learn what it is like to be a sumo wrestler. In Spain, viewers might want to experiment with turning their characters into a bullfighter, and so on. These types of differences are the key to responding to the needs of local audiences. However, global consumer products are likely easier to market on a global basis with a global theme.

2. *Some critics say that although video games are designed to have a broad appeal, they do reflect a “Westernized” version of life. Is there a danger that teens exposed to large doses of video games will identify less with the cultures of their own societies and that teens in developing countries will want a Western lifestyle and goods they cannot afford?*

A: The debate over the impact of so-called Westernized versions of various media which are exported to both developed and developing cultures will likely never cease. Although global video games often depict the darker aspects of the developed world, they also have a humorous and entertaining value. There is also an argument that the availability, low price and mass distribution of global video games made by well-funded international groups can mean local made versions can lose out to their better funded rivals.

With regards to desires among young people for more “Western” goods, this is a sensitive issue involving elements of economic development and materialism. It could be argued that it is not ethical to show video games that depict wealthy lifestyles in developing countries because they promote discontent in those markets and promote materialism. However, there are wealthy and poor people in every nation and, following this line of reasoning, one could argue that such programs should not be aired in the Western market either—incidentally, some groups do make this argument.

3. *It is now the norm for game developers to relocate to work anywhere in the world. Can you think of other social trends and technological innovations that have helped companies to think more globally?*

A: Internet retailers such as Amazon make online books in English available globally. However, Amazon also has online services to accommodate those in French- and Spanish-speaking countries. This is a localized approach. The French version of Amazon can further localize its selections by offering books tailored to specific Francophone regions such as Africa and Canada, not just France. Clearly, Amazon can continue to localize by selecting other languages where significant numbers of readers are.

Technology is also driving down the cost of travel and communication, while in turn the reductions in trade barriers and regulations are making it easier to export skills as well as products around the world.

4. *Advances in technology often spur evolution in the entertainment industry. How might new products and services, such as the iPhone and YouTube, affect entertainment in years to come?*

A: There will be innovations to these technologies and future technologies, as one innovation leads to another. The entertainment industries will no doubt continue along with further miniaturization in medium and mobility in delivery.