

CHAPTER 1

GLOBALIZATION

LEARNING OBJECTIVES:

- 1.1 Identify the types of companies active in international business.
- 1.2 Explain globalization and how it affects markets and production.
- 1.3 Detail the forces that drive globalization.
- 1.4 Outline the debate about globalization's impact on jobs and wages.
- 1.5 Summarize the debate about income inequality.
- 1.6 Outline the debate about culture, sovereignty, and the environment.
- 1.7 Identify how this course will help you develop skills for your career.

CHAPTER OUTLINE:

Introduction

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 about 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 about Income Inequality
 - Inequality within Nations
 - Inequality between Nations
 - Global Inequality
 - Summary of the Income Inequality Debate
- Debate about Culture, Sovereignty and the Environment
 - Globalization and Culture
 - Globalization and National Sovereignty
 - Globalization: Menace to Democracy?
 - Globalization: Guardian of Democracy?
 - Globalization and the Environment
- Developing Skill for Your Career
 - 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.

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.
- 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
 - a. 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
 - a. Reduces marketing costs by *standardizing* activities
 - b. Creates market opportunities abroad if home is small or saturated
 - c. Levels uneven income streams for global seasonal products
 - d. Companies must not overlook local buyers’ needs
 - e. 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
 - a. Access lower-cost workers to cut overall production costs
 - b. Access technical expertise
 - c. 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. Other International Organizations

- a. World Bank - The initial purpose of the World Bank (www.worldbank.org) was to finance European reconstruction following the Second World War. The World Bank later shifted its focus to the general financial needs of developing countries, and today it finances many economic development projects (infrastructure development) in Africa, South America, and Southeast Asia.
- b. International Monetary Fund - is an agency created to regulate fixed exchange rates and to enforce the rules of the international monetary system. Among the purposes of the IMF (www.imf.org) are promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, avoiding competitive exchange devaluation, and making financial resources temporarily available to members suffering from severe balance of payment problems.

3. Regional Trade Agreements

- a. Smaller groups of nations also are integrating their economies (e.g., NAFTA, European Union).

4. Trade and National Output

- a. Effect of the WTO and regional trade pacts is greater global trade and cross-border investing (Map 1.1).
- b. Trade growth has been faster than world output.
- c. *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.
2. 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
3. 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.
4. Advancements in transportation technologies
 - a. Make global shipping more efficient and dependable (e.g., GPS)

C. 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 is currently ranked 27th (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 ABOUT 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 high.
 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 ABOUT 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 ABOUT 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.
 3. Globalization and the Environment
 - a. Most international firms today support reasonable environmental laws because (if for no other reason) they want to expand future local markets for their goods and services. They recognize that healthy future markets require a sustainable approach to business expansion.

VIII. DEVELOPING SKILLS FOR YOUR CAREER

Skills required for a career in International Business include: critical thinking, an understanding of business ethics and social responsibility, communication and knowledge application and awareness.

- A. The Global Business Environment – What makes international business special is that it occurs within a dynamic, integrated system that weaves together four distinct elements:
 - 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
- IX. 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.

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 \$16.2 trillion and services worth 4.7 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: Netherlands, Ireland and Belgium are examples of a nations that rank 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.

Ethical Challenge

You are the CEO of a major U.S. apparel company that contracts work to garment manufacturers abroad. Employees of the contractors report 20-hour workdays, pay lower than the minimum wage, overcrowded living conditions, physically abusive supervisors, and confiscation of their passports. Contractors and government officials say local labor laws are adhered to and enforced, though abuses appear widespread. You send inspectors to the factories abroad but they uncover no labor violations. A labor-advocacy group claims that supervisors coached workers to lie to your inspectors about conditions and threatened workers with time in makeshift jails without food if they talked.

- 1-5. *Should you implement a monitoring system to learn the truth about what is happening?*

A: The implementation of a monitoring system is important. A keener sense of *business ethics and social responsibility* are critical to the success of MNC. These concepts serve as the guiding principles that influence the way individuals and organizations behave within society. The issues of personal ethical responsibility and reasoning should impact how managers make ethical decisions under specific circumstances and how they fared.

- 1-6. *Do you help the factory improve conditions, withdraw your business, or simply do nothing?*

A: The answer depends on the overall outlook of the market and opportunities that it presents. If the long term opportunities are good, it is important to note the business does have a social responsibility with regard to topics such as human rights, fair trade, and sustainable development.

- 1-7. *How might your actions affect your relations with the factory owner and your ability to do business in the country?*

A: It's extremely important that your company be thorough and transparent throughout the monitoring process. The monitoring process could seem more impartial by contracting an independent organization to conduct the investigation, rather than employ someone with whom the company might be suspected as having social or political connections. You could also have the report made public to all parties simultaneously to eliminate the perception of the report being adjusted. To implement and maintain rapid, sustainable improvements: monitor and verify codes of conduct regarding labor practices, disseminate information to workers explaining their rights, appeal to government agencies on effective ways to raise labor standards, explain how their reputation as being "good guys" in the labor standards arena can create a useful marketing tool and opportunities for

firms and countries by differentiating themselves when competing in the apparel export market.

Teaming Up

Research Project. Imagine that you and several of your classmates own a company that manufactures cheap sunglasses. To lower production costs, you choose to move your factory from your developed country to a more cost-effective nation.

- 1-8. *What elements of the national business environment might influence your decision where to move production? Are there obstacles to overcome in the international business environment?*

A: The first factor is based on the need potential. For example, if a company produces air conditioners, it will obviously look at countries with warm climates. You would then address the Financial and Economic Forces, the analyst should look at factors such as trends in inflation rates, exchange rates and interest rates. Credit availability, paying habits of customers and Return of Investment for similar investments are other factors to be considered. You would then proceed to look at Political and Legal Forces, The analyst should look at elements such as: market entry barriers, profit remittance barriers and other barriers such as political instability, tax laws, safety standards, price controls, etc., and finally followed by looking at the Sociocultural and Competitive Forces.

- 1-9. *What aspects of the globalization of production and marketing will you expect will benefit your company after the move?*

A: This project gets students to begin pondering the types of elements that must be considered when selecting a country for investment. At a minimum, students' responses should consider: (1) the presence of investment barriers in the country; (2) resources needed to carry out production, as well as their availability and cost; (3) availability of modern telecommunications to facilitate communication with the home office; and (4) how the expansion might be financed.

Practicing International Management Case

MTV Goes Global with a Local Beat

- 1-16. *Q: Some people outside the United States say teens exposed to large doses of U.S. youth culture on MTV will identify less with their own societies and teens in developing countries will want Western goods they cannot afford. MTV's response: "It's just fun, it's only TV," says one executive. What do you think? Are there dangers in broadcasting U.S.-style programs and ads to developing countries?*

A: The debate over the impact of U.S. programming beamed to other developed and developing cultures will likely never cease. The U.S. television program *The Simpsons*, which depicts a rather unflattering U.S. family, is seen in more than 90 countries. Such a program is unlikely to encourage young people outside the

United States to grow up to be like Homer Simpson. Generally, this program and others, such as *Modern Family*, the *The Ellen Degeneres Show*, and *Big Bang Theory*, are watched around the world for a glimpse into the humorous or darker aspects of U.S. culture. On the other hand, local programming can lose out to the U.S. programming if it is not as entertaining.

In regard 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 U.S. programs 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 U.S. market either—incidentally, some groups do make this argument.

- 1-17. Q: *Digital compression technology made it possible for MTV to program over a global network. Can you think of other technological innovations that have helped companies to think globally and act locally?*

A: Internet retailers such as Amazon make online books in English available globally. However, Amazon also has online service 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.