

## **BEFORE YOU GET STARTED...**

We wanted to let you know about some **innovative resources** available to you with Gaspar's *Introduction to Global Business*.

### ***CengageNOW***

We also know how important it is for your students to develop critical thinking skills and to expand their cultural and geographical knowledge through this course. So we've developed several exciting new features available in CengageNOW to help you achieve these objectives. Students can purchase access to CengageNOW for a moderate fee in addition to the price of the print book, or they can purchase CengageNOW exclusively, which will give them access to the *Introduction to Global Business* ebook. As always, this product offers a diverse range of useful homework and assessment tools, such as quizzes and study aids, but there are a number of new features we wanted to highlight:

First, CengageNOW features a new set of dramatically enhanced **Interactive Maps**. There are six maps in total, and each map offers a wealth of information on such topics as Political and Cultural Systems, CSR and Ethics, International Trade, Regional Integration, Global Operations, and Foreign Exchange and FDI.

Students can use these Interactive Maps for research projects, and you can assess their understanding of the maps with our **Interactive Map Quizzes**. Each quiz—one per chapter—contains eight multiple choice questions that will require students to read and interpret data on one or more maps and to connect this data to the concepts presented in the text.

And as mentioned earlier, there is a new set of **Media Quizzes** available in CengageNOW. Each of the 17 Media Quizzes features four or five multiple choice questions based on one of the BBC News video clips covering recent stories in China, India, Brazil, Dubai, and beyond.

### ***CourseMate***

As always, students who choose to purchase CourseMate (available for an additional fee with the purchase of a book) will have access to a host of valuable study tools, such as quizzes and key term flashcards. However, the *Introduction to Global Business* 3e CourseMate also features the **Interactive Maps**, which students can use for research projects. Students will also be able to access the video set through the related **Media Quizzes**.

### ***Global Economic Crisis Resource Center***

Another constantly refreshed, up-to-the-minute resource you'll want to be aware of is the **Management Blog** found under Community Resources in the Global Economic Watch/Global Economic Crisis Resource Center. Nearly every day, management instructor Gemmy Allen combs the news headlines and posts business-related stories to the blog that you can bring into the classroom to spark discussion and illustrate concepts. You'll want to check the blog daily for fresh insights you can use with your students. And of course, the Watch is still loaded with many other valuable teaching aids on business and economics as well.

**Contact your Cengage Sales Representative today for more information on all of our Global Business resources.**

# CHAPTER 1

## *The Rise of Globalization*

### Chapter Outline

- Introduction
- What Is Globalization?
  - Emerging Economies
  - Decoupling and the Move to a Multipolar World Economic Order
- Key International Institutions that Facilitate Globalization
  - The International Monetary Fund
  - The World Bank
  - The World Trade Organization
- Institutional Structure and Its Impact on Globalization
  - What Is Institutional Structure?
  - Transparency of Political Institutions
  - Adaptive Institutions to Strengthen Public Participation
  - Independent Judiciary and Free Press
- Effective Policy Measures that Promote Globalization
  - Good Governance
  - Competitive Markets
  - Property Rights
  - Anticorruption Policies
- Impact of Information Technology on Globalization
  - The Digital Generation
  - Expanding the Global Use of Information Technology
  - The Digital Divide Myth
  - How Countries “Leapfrog” into the Internet and Cell Phone Era
- The Globalization Controversy
  - Job Losses and Income Stagnation
  - Sustainable Development and Environmental Degradation

- Making Globalization Work for All
  - Globalization's Winners and Losers
  - Globalization's Losers Need Support

## Teaching Objectives

After covering this chapter, the student should be able to:

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

## COMPREHENSIVE LECTURE OUTLINE

**I. Introduction.** We live in a highly integrated and interdependent world. Business has become increasingly global in nature, and the success of business depends on the domestic economic environment and on developments abroad.

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**CLASS ACTIVITY:** Use the Cultural Perspective case as an opportunity to allow students to explore the idea of globalization using the examples of cotton producers in Burkina Faso, steel makers in Ukraine, and electronics manufacturers in Singapore. Suggestion: You could ask them to do this case as individuals or in teams as a class activity. Have the students read the case presented in the text and come up with their own examples of businesses affected by globalization.

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**II. What Is Globalization?** Globalization encompasses the socio-economic reform process of eliminating trade, investment, cultural, information technology, and political barriers across countries, which could lead to increased economic growth and geo-political integration and interdependence among nations of the world.

Globalization and international trade and investment are interlinked. Globalization has been based upon changes in national policies:

- Strengthening the role of the private sector
- Supporting free-market pricing
- Eliminating barriers to free movement of goods, services, capital, and information technology
- Promoting institutions that enforce transparency, disclosure, and rule of law

### 1. Emerging Economies

Prior to 2000, globalization generally implied that business expanded from developed countries to developing or emerging economies. Now the flow of business had moved in both directions. **Exhibit 1.2 • Strategic Competitors 2020**

- **Emerging economies** – countries that have been moving toward more open trade and free-market policies
- **BRIC economies** – Brazil, Russia, India, and China

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***ECONOMIC PERSPECTIVES: Asia: Reducing Export Dependency and Increasing Domestic Demand.*** Use the Economic Perspectives case as an opportunity to discuss the difficulties of sustaining rapid economic advancement by countries pursuing a policy of “export-led” growth and the lessons that countries have learned:

1. *With the decoupling of world economy, diversification of export-oriented nations to include major emerging markets is imperative.*
2. *Countries emphasizing exports should base their strategy on their true competitive advantage.*
3. *For countries with large population, domestic market and growth of the middle class remain important.*
4. *Living on credit can lead to a disaster.*
5. *A country’s financial sector should be adequately regulated.*

*Suggestion: You could ask students to do this case as individuals or in teams as a class activity. Have the students read the case presented in the text and answer the questions at the end of the case.*

**Questions:**

1. *How should countries diversify from a purely “export-led” growth strategy? Answer: export-oriented economies often use income earned from exporting activities to facilitate development of other industries. Example: China is increasingly moving away from low-cost manufacturing and becoming a center of advanced research and development. Yet, for large emerging economies in particular, encouraging domestic demand as a compliment to exports is important for stabilizing economic growth and globalization.*

2. *What are some of the major lessons learned by countries to better prepare them for the next global economic crisis? Answer: As the case suggests, diversification of business activity, regulation of the financial sector, expanding its own market, and sustainable development are the most critical strategies of avoiding global economic crisis.*
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## 2. **Decoupling and the Move to a Multipolar World Economic Order**

- **Decoupling** refers to a fundamental global shift in which developing economies that were once dependent upon industrialized countries for economic advancement begin to solidly grow based on their own underlying economic strengths.
  - Decoupling will eventually lead to a **multipolar world**, a world economy in which the engines of growth could comprise the U.S., the E.U., China, India, Brazil, Russia, and South Africa.
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### ***DISCUSSION STARTER: REALITY CHECK 1.***

*How have job opportunities for business majors from your school been affected by globalization? Do you see any particular trends or challenges?*

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**III. Key International Institutions that Facilitate Globalization.** Globalization gained momentum after World War II, when governments of the free world recognized the importance of international cooperation and coordination, which has led to the emergence of three major international organizations: the International Monetary fund (IMF), the World Bank, and World Trade Organization (WTO). The IMF and the World Bank (IBRD) were conceived in July 1944, when representatives of 44 countries met in Bretton Woods, New Hampshire, U.S.A., and agreed upon a framework for international economic cooperation.

- **The International Monetary Fund** – an institution charged with overseeing the international monetary system and providing global financial stability.
  - Came into formal existence in December 1945
  - Began operations on March 1, 1947, in Washington, DC
  - As of September 18, 2014, 188 countries were members
  - IMF continues to:

- Provide a forum for cooperation on international monetary problems
  - Facilitate sustainable growth of international trade
  - Promote exchange rate stability
  - Lend countries foreign exchange when needed
- **The World Bank.**
  - Primary role was to aid the reconstruction of Europe after the war.
  - Today WB focuses on reconstruction and restructuring economies.
  - **The World Bank has several affiliated institutions. Table 1.1 • The World Bank Group's Developmental Institutions include:**
    - **IBRD**
    - **IDA**
    - **IFC**
    - **MIGA**
    - **ICSID**
- **The World Trade Organization.**
  - Began in 1948 under the General Agreement on Tariffs and Trade (GATT).
  - GATT primarily dealt with merchandise trade; the mandate of the WTO is much broader.
  - WTO is based in Geneva, Switzerland, and has 160 members; an additional 23 countries are negotiating to join.
  - WTO helps global trade to flow smoothly, freely, fairly, and predictably by:
    - Administering trade agreements
    - Acting as a forum for trade negotiations
    - Settling trade disputes
    - Reviewing national trade policies
    - Assisting developing countries
    - Cooperating with IMF and IBRD

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**DISCUSSION STARTER: REALITY CHECK 2.**

*What is the status of the Doha Round of trade negotiations? Identify the key stumbling block of this trade negotiation and describe its impact on globalization.*

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**IV. Institutional Structure and Its Impact of Globalization.** Institutions are the rules, enforcement mechanisms, and organizations that support market transactions. Successful institutions play three important roles: they efficiently channel information about market conditions; they define property rights and contracts; and they promote competition and innovation.

- **Transparency of Political Institutions.** The foundations of a globalized world are political. Political institutions and leaders have to be transparent, otherwise social unrest will arise.
- **Adaptive Institutions to Strengthen Public Participation.** Adaptive institutions are government organizations that create strong incentives for private investment and operate under a system of checks and balances.
- **Independent Judiciary and Free Press.** Investors have greater confidence when conducting business in countries with low crime, effective courts, dependable contract enforcement, and free press.

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**DISCUSSION STARTER: REALITY CHECK 3.**

*Identify an adaptive institution in your city or state that promotes globalization. What are some of the measures advocated by that institution?*

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**V. Effective Policy Measures that Promote Globalization.** Countries cannot thrive on high-quality institutions alone; they also need effective policies as complements to globalization.

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**ETHICAL PERSPECTIVES: Canadian Terroir?** Use the Ethical Perspectives case as an opportunity to discuss the ethical labeling issue facing the Canadian Liquor Control Board, which has approved labeling wine with up to 70 percent imported content to be sold as Canadian wine.

Questions:

1. In the interest of globalization, do you believe that Ontario's Liquor Control Board is ethical in its wine labeling process? Explain your position. Answer: The Canadian Liquor Control Board is unethical; it misleads consumers of Canadian wines.
  2. With the ongoing globalization process, do you think that as an institution, Ontario's Liquor Control Board is practicing good governance? Answer: The Canadian Liquor Control Board needs to improve its transparency in order to practice good governance. It will promote international wine trade in Canada and will have a positive impact on small producers of quality Canadian wine.
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- **Good Governance.** Policy transparency, competent administrators, and consistency over time are measures of effective governance.
  - **Competitive Markets.** Countries must enforce regulations that promote free markets, such as antitrust laws – national laws aimed at maintaining competition in all sectors of the economy and preventing monopolistic behavior of firms.
  - **Property Rights.** Weak physical and intellectual property rights protection discourages domestic and foreign investors from making long-term commitments.
  - **Anticorruption Policies.** Illicit dealings undermine economic performance by raising costs, creating uncertainty, and thwarting competition and transparency.
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**DISCUSSION STARTER: REALITY CHECK 4.** Ask students to search Transparency International's website and identify the ranking of the United States and the top ten countries with the least corruption. Discuss the findings.

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**VI. Impact of Information Technology on Globalization.** Innovation in information technology is radically changing the way people live all over the world.

- **The Digital Generation.** Communication has become the fastest-growing part of household expenditures since 1993. Millions of people all over the world use the Internet for everything.

- **Expanding the Global Use of Information Technology.** Internet-based applications underlie major advances in science, business organization, environment monitoring, transparent management, education, and e-government. Broadband prices have been falling, which enables policymakers to maximize the economic potential of remote communities.
- **The Digital Divide Myth.** **Digital divide** describes the perceived IT gap between developed and developing countries. The fall in prices of digital IT equipment and services accelerated globalization and narrowed the digital gap.
- **How Countries “Leapfrog” into the Internet and Cell Phone Era.** As of 2014, about 43 percent of the world’s population of 7 billion had access to the Internet. The next billions of Internet users will be vastly different. The majority of them will be from developing countries, and they will connect to the Internet principally via wireless networks. In developing countries the number of cell phone subscribers outnumbers those for fixed-line networks by more than 20 to 1. Developing countries are skipping the use of land-line technology and moving directly to wireless systems.

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**DISCUSSION STARTER: REALITY CHECK 5.** *Ask students to research and determine whether the typical middle-class citizen in Mexico is already in the smart phone era.*

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**VII. The Globalization Controversy.** Globalization can be viewed as a force for exploitation and injustice. Arguments against globalization highlight problems such as the costs of disruptive economic change, including job losses and stagnant wages, the loss of local control over economic policies, the disappearance of old industries, and the related erosion of communities.

- **Job Losses and Income Stagnation.** Critics argue that globalization harms the poor through loss of jobs and stagnant wages. FDI may take jobs from workers in advanced industrial economies and transfer them to less expensive workers in developing countries, while workers in developing countries might be drawn into jobs that may exploit them.
- **Sustainable Development and Environmental Degradation.** **Sustainable development** is defined as the development that meets the needs of the present

without compromising the ability of future generations to meet their own needs. Finding solutions depends upon a shared vision by governments, businesses, non-governmental organizations, and society. Corporate Social Responsibility (CSR) practices are becoming a significant factor in determining where multinational corporations (MNCs) conduct business; rather than FDI sparking a “race to the bottom,” MNCs are looking for long term commitment to host countries.

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***DISCUSSION STARTER: REALITY CHECK 6.*** Ask students to determine whether there have been any industrial job losses in their region of the country because of globalization. They should then ask those workers who have lost their jobs about their experiences.

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**VII. Making Globalization Work for All.** The globalization debate should center on how to best manage the globalization process, so that the benefits are widely shared and costs are kept to a minimum.

- **Globalization’s Winners and Losers.** Globalization does create winners and losers. Millions have climbed out of poverty. Additionally, globalization has promoted civil liberties by proliferating information and increasing choices.
  - **Globalization’s Losers Need Support.** Countries that have not been able to seize the opportunities to participate in globalization suffer most. National policies ought to be implemented to help retain and educate displaced workers.
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***DISCUSSION STARTER: REALITY CHECK 7.*** Ask students whether they consider themselves “winners” or “losers” of globalization. Let them explain their position.

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## Assignments

### *End-of-Chapter Discussion Questions*

1. What are some underlying factors that are causing decoupling to happen as societies move from a unipolar to a multipolar world? In your opinion, in which direction is the balance of global economic power shifting? And is it good for the world economy? Answer: Robust growth, growth of the middle-class, high savings and investment rates, and world-class technical education in BRIC economies suggest the move towards a multipolar world, where economic growth and power will be shifting to BRICs. Faster growth among BRICs will lead to greater global prosperity.
2. What are some of the major economic reform themes that are common to the three international organizations promoting globalization? Answer: Free trade, global and multilateral cooperation, globalization, transparency and fair competition, and lack of discrimination among nations.
3. Globalization can be facilitated only if national governments are willing to participate in that process. What roles can the three major international institutions play to be a part of this facilitation process? Answer: Provide a forum for international cooperation, promote economic stability, and provide economic analysis and advice to member nations.
4. While domestic institutions play an important role in the globalization process, what are some of the fundamental policy measures that those countries need to promote in order to benefit from globalization? How might these policies be implemented and promoted? Answer: The countries need to promote good governance, competitive markets, property rights, and anticorruption policies; these can be achieved through competent policy administration, political independence of public agencies, and the capabilities of civil servants.
5. Do you believe that there is a “digital divide” in the global economy? Is globalization narrowing that gap? If so, how? Answer: The digital divide in the global economy still exists, since IT infrastructure in the developed market economies is more advanced, and citizens of these countries have more opportunities than citizens of less industrialized countries. Advances in wireless technology have dramatically brought down Internet and related IT costs, thereby narrowing the digital gap between developed and developing

countries. Developing countries can now skip land lines and “leapfrog” into the digital era.

6. Is sustainable business and economic development the answer to the globalization controversy? Answer: Sustainable business development is part of the answer. The globalization controversy will be resolved only if the private sector, governments, and non-government agencies will work together to help the countries maximize the benefits of globalization and keep the costs to the minimum.
7. Globalization temporarily creates “winners” and “losers.” What reform would you suggest to help those who are not benefiting from globalization? How might these reforms be implemented? Answer: Losers of globalization need help in retraining, access to basic health care, and help with career transitions and job search. The governments and non-government agencies, as well as private businesses, should share in reaching these objectives.

### *Mini-Case Synopsis and Questions*

Politically controlled supply and finite availability of non-renewable energy sources has prompted many nations to seek alternate renewable energy sources. Clean, renewable biofuels are environmentally friendly and contribute to sustainable growth and energy security. Countries should take extreme care in implementing biofuel policies, because more pollution may occur, and resources may be misallocated when subsidies are provided and sectors are protected.

### *Questions:*

1. *What are the advantages and disadvantages of biofuels in terms of addressing the challenge of sustainable development?*
  - Advantages:
    - Help achieve energy security
    - Source of income for the rural population
    - Reduction in air pollution
    - Mitigating global warming
  - Disadvantages:
    - Sugar, corn, and palm oil prices have risen
    - Growing biofuels may displace prime agricultural land
    - Deforestation
    - Energy used in biofuel production may exceed the energy-content of some types of bioethanol

2. *Should bioethanol production from corn be encouraged, given that corn is used as a basic cereal in many societies? Should bioethanol production be subsidized in the United States, and also be protected against competition from Brazil sugarcane-based bioethanol?*
  - Bioethanol derived from sugarcane (Brazilian) is much more cost and pollution efficient. U.S. production of ethanol is corn- or wheat-based, is more expensive, leads to higher pollution, and raises the prices in the cereals market. Subsidies of U.S. production of ethanol and protection from Brazilian competition will ensure energy security for the U.S., but will distort agricultural markets in the U.S. and elsewhere.

*Point/Counterpoint, Interpreting Global Business News, and Portfolio Projects*

Students' answers to these assignments will vary widely. Their writing should reflect an understanding of the chapter's basic concepts, thorough research, and logic and critical thinking skills.