International Business The New Realities 4th edition Cavusgil Solutions Manual

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PART 1

FOUNDATION CONCEPTS

CHAPTER 2

GLOBALIZATION OF MARKETS
AND THE INTERNATIONALIZATION OF THE FIRM
Instructor's Manual by Marta Szabo White, Ph.D.

I. LECTURE STARTER/LAUNCHER

The Value Chain concept is central to this chapter. To ensure that students understand this concept, you might start the chapter with a basic example. Project the basic value chain model on the screen, and select a simple business. How about shoes, or laptop computers, or automobiles? Suppose you manufacture one of these products. Next, proceed step by step through the model from research & development; to procurement (sourcing raw materials); to manufacturing; to marketing; to distribution; to sales & service. Follow each activity and commensurate value that is added at each step along the way. Now consider locating each one of those activities in a different country, if it is more efficient to do so. If you don't want to create an example, you can always use the examples in **Exhibit 2.10**.

Useful tools for introducing the chapter include the following:

[1] Globalization & Assessing Global Markets for Potential Entry
Published on Oct 25, 2012
Copyright Mark Wolters 2012
This video discusses globalization and variables to evaluate when considering entering different markets.
https://www.youtube.com/watch?v=2yVMnuhYp4c
11.36 Minutes

[2] Connecting You to Global Markets
International Trade Administration
Published on Feb 11, 2014
The U.S. Commercial Service hosts regional conferences for small and midsized companies interested in starting or expanding international sales.
https://www.youtube.com/watch?v=PR269o7s66M
9.41 Minutes

[3] Diversity and globalization: James Sun at TEDxBayArea Ignite
Published on Dec 22, 2012

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James Sun is an entrepreneur, public speaker, and international television personality. Currently, he's CEO of Pirq where he sets and leads the overall business strategy, communication, and execution.
https://www.youtube.com/watch?v=Q-K_bYQ11DE
16.54 Minutes

[4] Kjell Nordstrom: International Business Thought-Leader, Best Selling Author, Keynote Speaker
Published on Jul 17, 2013
Dr. Kjell A. Nordström has 20 years of experience of working as an advisor/consultant to several large multinationals throughout the world, speaks on globalization and information technology.
https://www.youtube.com/watch?v=FBZiYq712Qw
6.00 Minutes

[5] What is the Credit Crisis?
Global Financial Crisis Explained
Author: Jonathan Jarvis
Uploaded on Aug 23, 2010
The Short and Simple Story of the Credit Crisis.
The goal of giving form to a complex situation like the credit crisis is to quickly supply the essence of the situation to those unfamiliar and uninitiated. This project was completed as part of my thesis work in the Media Design Program, a graduate studio at the Art Center College of Design in Pasadena, California.
http://www.youtube.com/watch?v=Q-zp5Mb7FV0
10.54 Minutes

II. LEARNING OBJECTIVES AND THE OPENING VIGNETTE

LEARNING OBJECTIVES
After studying this chapter, students should be able to:

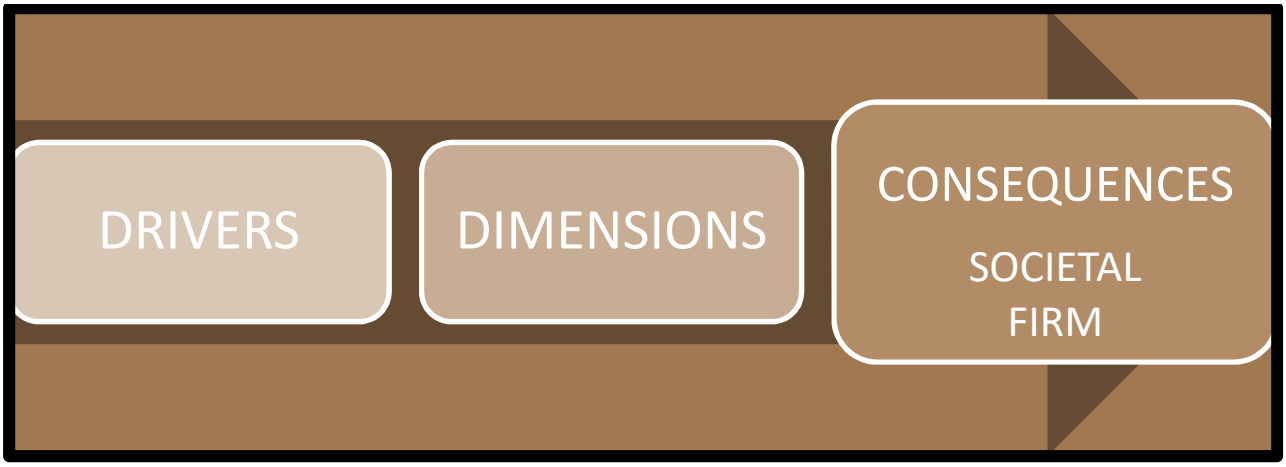
2.1 Understand market globalization as an organizing framework
2.2 Know the drivers of globalization
2.3 Understand technological advances and globalization
2.4 Comprehend the dimensions of globalization
2.5 Appreciate firm-level consequences of market globalization
2.6 Understand the societal consequences of globalization

Key Themes
■ In this chapter, there are six themes:

[1] Market globalization as an organizing framework
[2] The drivers of globalization
[3] Technological advances and globalization
[4] The dimensions of globalization
[5] Firm-level consequences of market globalization
[6] Societal consequences of globalization

■ Globalization has been around for centuries- the early civilizations in the Mediterranean, Middle East, Asia, Africa, and Europe have all contributed to its growth.
■ **Globalization of markets** is the integration and interdependence of national economies.
■ Globalization is chronicled through international trade, triggered by world events and technological discoveries. Globalization has progressed through four phases, since the early 1800s. The current phase was stimulated by the rise of IT, the Internet, and other advanced technologies.

■ The organizing framework used to explain globalization consists of **drivers** (inputs), **dimensions** (processes) and **consequences** – both societal and firm-level (outputs).



Globalization can be modeled in terms of its drivers, dimensions, societal consequences, and firm-level consequences

■ **Drivers**-
Falling trade and investment barriers; market liberalization and adoption of free market economics in formerly closed economies; industrialization and economic development (emerging markets); integration of world financial markets; and technological advances.
■ **Globalization** makes internationalization an imperative, **technology** provides the *means.*

■ **Technological advances and globalization**
Technology is one of the Drivers in the organizing framework
■ Key advances- information technology, communications, the Internet, manufacturing,

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and transportation. These systems help create an interconnected network of customers, suppliers, and intermediaries worldwide.
■ IT has enabled international business to be affordable for all types of firms.

■ Dimensions-

Growing global interconnectedness of buyers, producers, suppliers, and governments. Globalization has fostered the emergence of *regional economic integration blocs*, growth of global investment and financial flows, the convergence of buyer lifestyles and needs, and the globalization of production and services.
■ **Global Sourcing** means **reconfiguration of the value chain** so as to capitalize on the most advantageous locations for sourcing, manufacturing, marketing, and distribution—on a global scale.

■ Consequences- Firm

Firms are compelled to globally reconfigure key value-adding activities to reduce the costs of R&D, sourcing, manufacturing, marketing, and other value-adding activities on a global scale, or to gain closer access to customers..

■ Consequences- Societal

There is much debate about globalization's benefits and harm.
■ Globalization was a major factor in the recent global recession and financial crisis.
■ Critics complain that globalization interferes with national sovereignty, the ability of a state to govern itself without external intervention.
■ Globalization is associated with *offshoring*, the relocation of value-chain activities to foreign locations where they can be performed at lower cost by subsidiaries or independent suppliers.
■ Globalization tends to decrease poverty, but it may also widen the gap between the rich and the poor.
■ Unrestricted industrialization may harm the natural environment.
■ Globalization is also associated with the loss of cultural values unique to each nation.
■ Trade and investment can help address many of Africa's development needs.

Teaching Tips

■ Input-Process-Output model: As this chapter is framed with a globalization model consisting of **drivers** (inputs), **dimensions** (processes) and **consequences** – both societal and firm-level (outputs), make it simple for your students and start with an explanation of a fundamental input-output model from Systems Theory. This model can be applied to any *open* system- from biology to business. Once you highlight the essence of the model, you can break your class into four groups, and assign one of the following to each group: (1) **drivers** (inputs- what drives it), (2) **dimensions** (processes- what is it) and – (3) **societal consequences** (outputs-results) and (4) **firm-level consequences** (outputs-results). You may want to help them a bit by sharing some of the points under Key Themes (above). Allocate 10 minutes for each group to understand what their component means and how it fits into the overall model. Then, a designated group member from each group must share their findings with the class.

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Commentary on the Opening Vignette:
THE EMERGENCE OF BORN GLOBAL FIRMS

- **Key message**

■ Globalization and recent technological advances have now made venturing abroad much less expensive for SMEs, which comprise a majority of the firms in a typical country.
■ This is illustrated by firms that address a universal demand, such as **Instagram** and **Geo Search**, born global firms, internationalizing almost at inception.
■ **Instagram's** advanced technology coincides with a global shift to a more visual style of communication. People want to share photos to depict their life experiences.
■ **Geo Search** (www.geosearch.co.jp), a Japanese company that develops high-technology equipment to help engineers survey ground surfaces for cavities and build safe roads, airports, and underground utility lines.

- **Uniqueness of the situation described**

■ One of the largest social networks on the Internet, Instagram:

(1) Was founded in 2010.
(2) Is an online photo-sharing service used with smartphones.
(3) Only has a few dozen employees.
(4) Has millions of consumers and businesses worldwide as its customers.
(5) Only about 12% of users live in North America, the rest are all over the world.
(6) Virtual "InstaMeets" connects users from Singapore to Seattle to take and to share photos.

■ Social feed, paired with easy-to-use editing tools, allows anyone to create and share distinctive pictures.

■ **Geo Search** developed a land-mine detector used to find buried bombs and found a ready market in countries like Afghanistan, Cambodia, and Libya.

- **Classroom discussion**

■ Almost everyone in the class will have a personal experience to share regarding **Instagram**, so capitalize on this and make it personal.

■ Instagram is one of a growing number of small and medium-sized enterprises (SMEs) active in international business.

■ Born globals target a dozen or more countries within the first few years of their unveiling. Their agility and flexibility help them better serve both foreign and domestic customers.

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■ Although they often account for more than 50% of national economic activity, most SMEs have far fewer financial and human resources than large multinational enterprises (MNEs).

■ This introduction serves to underscore the delicate balance for born globals as they consider internationalization:

QUESTIONS:

2-1. What are the main characteristics of born global firms?
(LO 2.1; LO 2.3; AACSB: Application of knowledge)

■ Born globals target a dozen or more countries within the first few years of their inception. Their agility and flexibility help them better serve both foreign and domestic customers.

2-2. What drivers/causes of globalization have allowed born global firms like Instagram to internationalize at or near their founding?
(LO 2.2; LO 2.3; AACSB: Application of knowledge)

■ Globalization and recent technological advances have now made venturing abroad much less expensive for SMEs that make up the majority of firms in a typical country.

2-3. What advantages do you think a young company can gain by entering international markets soon after their inception?
(LO 2.2; LO 2.3; AACSB: Reflective thinking)

■ Instagram's advanced technology coincides with a global shift to a more visual style of communication. People want to share photos to depict their life experiences.

■ Born globals' agility and flexibility help them better serve both foreign and domestic customers.

III. DETAILED CHAPTER OUTLINE
GLOBALIZATION OF MARKETS AND THE INTERNATIONALIZATION OF THE FIRM

■ **Three mega drivers of globalization:**
[1] Worldwide reduction of barriers to trade and investment
[2] Market liberalization and free market adoption
[3] Technological advances

■ **Globalization** is a broad term referring to the interconnectedness of national economies and the growing interdependence of buyers, producers, suppliers, and

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governments in different countries, i.e. **ongoing economic integration and growing interdependency of national economies**.

■ Globalization enables firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge, **allowing companies to outsource value-chain activities to the most favorable locations worldwide**.
■ Globalization makes it easier for companies to sell their offerings worldwide.
■ Growing world trade and foreign direct investment (FDI) provide buyers with a wider choice of products than ever before.
■ Global competition and innovation help to lower consumer prices.
■ Firms with cross-border business create millions of jobs that raise living standards around the world.

ADDITIONAL TOPICS OF CONVERSATION-

■ **Market Globalization and Technological Advances-**
Antecedents and Consequences:

- Growing world trade and foreign direct investment
- Spread of technology
- Global sourcing and sales of products/services
- Broad product/service consumer options
- Competion and innovation foster product/service price reductions
- Job creation – contributing to higher living standards
- Global convergence of some products- illustrated by universal demand, e.g. music, entertainment, consumer electronics, food
- Transformation of national economies
- Dissemination of economic, political and legal values, e.g. liberalized economies, free trade and intellectual property rights

WHY GLOBALIZATION IS NOT NEW

Globalization is not new; it has simply accelerated and acquired a more complex character in recent decades.

■ Early civilizations in the Mediterranean, Middle East, Asia, Africa, and Europe have all contributed to the growth of cross-border trade.
■ Globalization evolved out of an international, common heritage shared by worldwide civilizations to reach out and interact with one another.
■ Cross-border trading opened the world to innovations and progress.
■ Exchange with others gave societies the opportunity to expand and grow.
■ Trade through the ages fostered civilization; without it, we would be a world of warring tribes using combat to get what is needed.

ADDITIONAL TOPICS OF CONVERSATION-

■ The word 'trade' comes from the Anglo-Saxon term *trada*, which means to walk in the footsteps of others.

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■ Ancient trade routes were the foundation for a high level of cross-cultural exchange of ideas that lead to the development of religion, science, economic activity, and government.
■ The phrase "all roads lead to Rome" is not so much a metaphorical reference to Rome's dominance of the world 2,000 years ago, but to the fact that Rome's territorial colonies were constructed as **commercial resource centers** to serve the needs of the Roman Empire and increase its wealth.
■ In an empire that stretched from England to Israel and from Germany to Africa, the Romans created more than 300,000 kilometers of roads. Roman roads were the life-blood of the state that allowed for trade to flourish.
■ In the middle ages, the Knights Templar acted as guardians for pilgrims making the hazardous journey to pay homage to the birth place of the Christian religion.
■ In addition to protecting tourists, this warrior order created the **first international banking system** with the use of rudimentary traveler's checks, eliminating the need for travelers to carry valuables on their person, which could be easily robbed.
■ Genghis Khan in 1100 not only united the Mongols but created an empire beyond the Chinese border, including Korea and Japan in the East, Mesopotamia (modern day Iraq and Syria), Russia, Poland and Hungary.
■ Genghis Khan instituted common laws and regulations over his domain, most notably the preservation of private property to enhance and protect the trading imperative.
■ Arab merchants traded in spices across land routes reaching from northern Arabia across modern-day Turkey, through Asia Minor and finally reaching China.
■ By concealing the origins of cinnamon, pepper, cloves, and nutmeg such traders were able to gain a **monopoly** and control prices. Europeans came to believe that the spices came from Africa, when in fact, they had merely changed hands there.
■ Under the traditional trading system, spices, linen, silk, diamonds, pearls, and opium-based medicines reached Europe via indirect routes over land and sea.
■ Representing one of the earliest systems of international distribution, the products passed through many hands on their long voyage. At every juncture, prices increased several fold (i.e. **value chain**).

Phases of Globalization

■ **Exhibit 2.1** summarizes the Phases of Globalization. Since the 1800s, the evolution of market globalization has witnessed **four distinct phases**, each triggered by global events and technological discoveries:

The First Phase of Globalization
1830 – 1880s

■ The *first phase of globalization* began about 1830 and peaked around 1880.
■ Cross-border commerce became widespread in this period due to the growth of railroads, efficient ocean transport, and the rise of large manufacturing and trading firms.
■ The inventions of the telegraph and telephone in the 1800s facilitated information flows between and within nations and greatly aided early efforts to manage companies' supply chains.

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The Second Phase of Globalization
1900 -1930

■ *The second phase of globalization* began around 1900 and was correlated with the rise of electricity and steel production.
■ This phase reached its height just before the Great Depression, a worldwide economic downturn that started in 1929.
■ At the turn-of-the-century, Western Europe was the most industrialized region and its colonization of countries worldwide led to the establishment of some of the earliest subsidiaries of multinational enterprises (MNEs).
■ European companies such as BASF, Nestlé, Shell, Siemens and British Petroleum had established foreign manufacturing plants by 1900.
■ The Italian manufacturer Fiat supplied vehicles to nations on both sides of the war.

The Third Phase of Globalization
1948 - 1970s

■ *The third phase of globalization* followed World War II.
■ At war's end in 1945, substantial pent-up demand existed for consumer products, as well as for resources to rebuild Europe and Japan.
■ Among the leading economies, the U.S. was least harmed by the war and became the world's dominant economy.
■ Substantial government aid helped stimulate economic activity in Europe.
■ Pre-war years had been characterized by high tariffs and strict controls on currency and capital movements.
■ Post-war, leading industrialized countries, including Australia, Britain and the U.S. sought to reduce international trade barriers.
■ The result of this effort was the *General Agreement on Tariffs and Trade* (**GATT**) – the precursor to the World Trade Organization (**WTO**).
■ **GATT**, emerging from the Bretton Woods Conference of 23 nations in 1947, served as a global negotiating forum for liberalizing trade barriers, and marked the beginning of a series of annual meetings aimed at reducing international trade and investment barriers.
■ Participating governments recognized that liberalized trade would stimulate industrialization, modernization, and better living standards.
■ Eventually, many more nations joined the **GATT**, and their efforts led to the formation of the WTO.
■ **WTO-** A multilateral governing body empowered to regulate international trade and investment.
■ Some 149 nations are now members of the WTO.
■ Additional global cooperation led to the formation of key international organizations such as the International Monetary Fund, the World Bank, and the United Nations.
■ Early multinationals from this third phase of globalization originated from the U.S., Western Europe, and Japan.
■ Firms like Unilever, Philips, Royal Dutch-Shell, British Petroleum, and Bayer organized their businesses by establishing autonomous subsidiaries in each of the foreign countries where they did business.

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Numerous companies developed strong brand names, including Nestlé, Kraft, John Deere, Kellogg, Lockheed, Caterpillar, Coca-Cola, Chrysler, Pepsi-Cola, Singer, and Levi's.
■ U.S. multinationals such as IBM, Boeing, Texas Instruments, Xerox, and McDonnell Douglas spread out across the globe, leveraging technological competitive advantages.
■ Gradually, MNEs began seeking cost advantages by locating factories in developing countries with low labor costs.
■ 1960s- Growing MNE activities and early efforts at trade liberalization resulted in substantial increases in international trade and investment.
■ **1960s/1970s- Recovered from World War II, MNEs in Europe and Japan began to challenge the global dominance of U.S. multinationals.**
■ With the easing of trade barriers and currency controls, capital began to flow freely across national borders, leading to integration of global financial markets.

The Fourth and Current Phase of Globalization
1980s - Present
■ *The fourth and current phase of globalization* began in the early 1980s.
■ This period witnessed enormous growth in cross-border trade and investment activity.
The following innovations triggered this phase:

- Commercialization of the personal computer
- Arrival of the Internet and Web browsers
- Advances in communication and manufacturing technologies
- Collapse of the Soviet Union and ensuing market liberalization in central and Eastern Europe
- Impressive industrialization and modernization in East Asian economies, including China

■ Growing global prosperity began to reach **emerging markets** such as Brazil, India and Mexico.
■ **1980s** - Huge increases in FDI, especially in capital- and technology- intensive sectors
■ Small and medium-sized enterprises (**SMEs**) can afford to be globally competitive, because of technological advances in information, communications, and transportation.
■ These technologies enabled the globalization of the **service sector** in areas such as banking, entertainment, tourism, insurance, and retailing.
■ Increasing global integration inspired mergers/acquisitions such as:

- GM acquisition of Saab in Sweden
- Ford acquisition of Mazda in Japan
- Daimler Benz acquisition of Chrysler in the U.S.

■ "Death of Distance" resulted from globalization and technological advances. The world was shrinking in terms of geographic and cultural distances that had long separated nations.

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MARKET GLOBALIZATION: ORGANIZING FRAMEWORK

■ **Exhibit 2.2** presents THE DRIVERS, DIMENSIONS AND CONSEQUENCES OF GLOBALIZATION.
■ This model distinguishes among:

(1) ***DRIVERS*** or causes of globalization;
(2) ***DIMENSIONS*** or manifestations of globalization;
(3a) ***FIRM-LEVEL CONSEQUENCES*** of globalization; and
(3b) ***SOCIETAL CONSEQUENCES*** of globalization.

■ The double arrows illustrate the interactive relationship between market globalization and its consequences.
■ As market globalization intensifies, individual firms respond to challenges and exploit new opportunities.

■ **Proactive internationalization**- seek new markets, find lower-cost inputs, or obtain other advantages or adverse home market conditions (e.g. regulation or declining industry sales), push firms to boldly venture abroad
■ Generally, **proactive** internationalization tends to be more successful than reactive internationalization.

■ Examples- TWO TELECOM FIRMS

■ **America Movil** (www.americamovil.com)-leading wireless phone service provider that has pursued internationalization as a **growth strategy**.
■ They have over 225 million subscribers in 18 countries.
■ Based in Mexico, America Movil internationalized primarily via FDI.
■ Initial operations were in Brazil and Colombia, then Ecuador, Chile, the Netherlands, and numerous other foreign markets.
■ Then a j**oint venture** with Citigroup to fund expansion in South America, and an **acquisition** of Verizon's telephone operations in Puerto Rico.

■ America Movil capitalized on globalization trends:
- Harmonizing communications technologies
- Converging buyer characteristics
- Reduced trade and investment barriers
- Leapfrogging past old telecom technologies and embracing contemporary mobile phone technologies

■ Transnational Strategy (Global and Multidomestic combination)

Global

- Key underlying assumption of the global strategy- worldwide convergence of buyer lifestyles, incomes, and demand.
- Cell phones are essentially identical worldwide
- Advertising emphasizes a global brand that is recognized everywhere.

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● Management coordinates operations on a global scale and applies common business processes in procurement and quality control.

Multidomestic

● Adapted to local languages.
● Modified to local regulations.
● Adapted to local telephone standards.

■ Globalization of markets drives product standardization, global branding, and selling to customers worldwide

■ **Vodafone** has internationalized mainly via FDI (Australia, Hong Kong, Scandinavia, Africa, Asia, Europe, India and the Americas), and implements a proactive **global strategy** by selling **standardized** products and services, and employing standardized marketing programs around the world.
■ Vodafone has annual sales of over $68 billion (2014), with 434 million mobile customers worldwide in 27 countries, and 9 million fixed broadband customers in 17 markets.
■ As emerging markets develop economically, they leapfrog past older technologies, e.g. landline systems and employ modern cell phone technologies. Vodafone capitalized upon the intersection of technology, globalization and emerging market trends, when it acquired Turkey's second-biggest mobile phone operator, Telsim in **2008**.
■ **2011-** Acquired a controlling interest in a major cell phone firm in India, a move that leveraged the country's rapid economic growth and need to upgrade its phone systems.
■ **2014-** Sold their interest in Verizon for $130 billion.

■ Universal demand is the pivotal underpinning for a global strategy as standardization and economies of scale are hallmarks for achieving the global efficiencies that this strategy is known for, and can translate to price competition.

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DRIVERS OF GLOBALIZATION

■ Five drivers of market globalization:

1. Worldwide reduction of barriers to trade and investment.

■ National governments have sought to reduce trade and investment barriers, which has accelerated global economic integration.
■ The **World Trade Organization** (WTO) has facilitated this.

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■ The WTO is a multilateral governing body empowered to regulate international trade and investment, and has been engaged in an ongoing liberalization of member states' economies since the late 1940s.
■ Joining the WTO in 2001, even China has committed to make its market more accessible to foreign companies.
■ Market openings are closely associated with the emergence of regional economic integration blocs, a key dimension of market globalization.

2. Market liberalization and adoption of free markets.

■ The Berlin Wall, built in 1961, separated the communist East Berlin from the democratic West Berlin.
■ The tearing down of the Berlin Wall in 1989, the collapse of the Soviet Union's economy that same year, and China's free-market reforms signaled the end of the 50-year Cold War between communist regimes and democracy.
■ It was the transition from **command economies** to **market-driven economies** that facilitated their membership into the global economy.
■ The Asian economies, India, Indonesia, Malaysia, and South Korea, embraced **market-based reforms**.
■ These events opened roughly **one-third** of the world to freer international trade and investment.
■ China, India, and Eastern Europe have become some of the most cost-effective locations for producing goods and services.
■ Privatization of previously state-owned industries promotes economic efficiency and attracts foreign capital into their national economies.

3. Industrialization, economic development, and modernization.

■ Industrialization transitions emerging markets- Asia, Latin America, and Eastern Europe- from being **low value-adding** commodity producers, dependent on low-cost labor, to sophisticated competitive producers and exporters of premium products (**higher-value products**) such as electronics, computers, and aircraft.
■ **Examples-**
- **Brazil** is a leading producer of Embraer commercial aircraft
- **Czech Republic** excels in manufacturing automobiles
- **India** is a leading supplier of computer software

■ **Gross National Income** (GNI) – perhaps the most important measure of economic development, i.e. standards of living & discretionary income
■ **Exhibit 2.3** maps the Gross National Income worldwide in $US per capita. There is a direct correlation between low-income countries and low levels of globalization, e.g. **Africa, Asia, Latin America**.
■ The adoption of modern technologies, improvement of living standards, and adoption of current legal and banking practices, increase the attractiveness of emerging markets as investment targets and facilitate the spread of ideas, products, and services across the globe.

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4. Integration of world financial markets.

■ Integration of world financial markets enables internationally active firms to raise capital, borrow funds, and engage in foreign currency transactions.

■ Cross-border transactions are made easier partly as a result of the ease with which funds can be transferred between buyers and sellers, i.e. through a network of international commercial banks.

■ The SWIFT network connects more than 9,000 financial institutions in some 200 countries.

■ The globalization of finance enables firms to pay suppliers and collect payments from customers worldwide.

5. Advances in technology.

■ Technological advances in communications, information, manufacturing, and transportation have served as a remarkable facilitator of cross-border trade and investment.

TECHNOLOGICAL ADVANCES AND GLOBALIZATION

Technology is one of the Drivers in the organizing framework

■ **Globalization** and **technology** are the twin mega-trends impacting the international landscape.

■ Globalization makes internationalization imperative, technology provides the *means.*

■ The most important advances in technology have occurred in information, communications, manufacturing, and transportation- enabling firms to interact more efficiently with value-chain partners- thus build competitive advantages.

Information Technology

■ Information technology (IT) is the science and process of creating and using information resources.

■ The effect of Information Technology (IT) on business has been nothing short of revolutionary.

■ The cost of computer processing fell by 30% *per year* during the past three decades, and continues to fall.

■ Data, information, and experience can be readily shared via worldwide company intranets.

■ Smaller firms can also leverage IT to design and produce customized products that can be targeted to narrow, cross-national niches.

■ The impact of IT on our daily lives has been profound- cell phones, Google, Yahoo, etc.

■ IT supports strategic decisions, e.g. the selection of qualified foreign business partners based on key information and intelligence.

■ Technology enables firms to interact with foreign partners and value-chain members in a more timely and cost-effective way, thus enabling competitive advantage.

■ The remarkable performance of the U.S. economy in the 1990s was largely due to aggressive integration of IT into firms' value-chain activities.

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■ With technological advances, small- and medium-sized enterprises (SMEs) can afford to be global players.

■ **Emerging markets (*technological leapfrogging*) and consumers (reduced prices and greater selection) are the beneficiaries, e.g.** African countries are immediately adopting cell phone technology, bypassing the landline technology**.**

Communications

■ **Exhibit 2.4** depicts the declining cost of global communication and growing Internet penetration rate as a percentage of regional population.

■ **1492**- It took five months for Spain's Queen Isabella to learn about Columbus' voyage;
■ **1865-** Two weeks for Europe to learn of President Lincoln's assassination;
■ **2001-** Only seconds for the world to witness the collapse of New York's World Trade Center towers.

■ The most profound technological advances have occurred in communications, especially telecommunications, satellites, optical fiber, wireless technology, and the Internet.

■ The Internet, and Internet-dependent systems such as intranets, extranets, social media, and e-mail, connect billions of people and companies worldwide. Today, the widest range of products and services—from auto parts to bank loans—is marketed online.

■ The dot-com boom of the 1990s led to massive investment in fiber-optic telecommunications cable.
■ Transmitting voices, data, and images is essentially costless, making Seoul, Stockholm, and San Jose next-door neighbors.
■ South Korea, where Internet access is nearly 100%, is leading the way- Koreans use their phones to pay bills, do banking, and watch news programs.
■ The Internet opens up the global marketplace to **SMEs** and other firms that normally lack the resources to engage in international business.
■ The Internet is stimulating economic development and a massive, global migration of jobs, particularly in the services sector.
■ **Services** as diverse as designing an engine, monitoring a security camera, selling insurance, and doing secretarial work are easier to export than car parts or refrigerators.
■ **China-** www.taobao.com Thousands of rural farmers use Internet sites to market their produce to urban consumers

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Ethical Connections

■ In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.
■ The result has been a dramatic rise in productivity and commerce, which helps improve living standards.
■ Mobile phones have become the **transformative technology** for developing economies (technological leapfrogging) with exponential growth of cellular subscribers resulting in:

- Greater efficiencies
- Improved living standards- access to education and healthcare services
- Better communication between suppliers and customers
- Dramatic rise in productivity and commerce

■ **Example**- MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.
■ Cell phone penetration largely accounts for Africa's economic growth in recent years.

■ Social Media Platforms- Transcend Borders and Geographic Distances

■ Facebook, Instagram, YouTube and Twitter facilitate the free flow of information, deepening the pace and impact of globalization.
■ **Reach** via direct sales, advertising and public relations.

■ **Examples-**

- 2011 "**Arab Spring**" in the Middle East was facilitated in large part by social media.
- **Puma** used Twitter and other platforms to market sportswear to customers in Europe and Latin America, ahead of the 2014 World Cup games.
- **McDonald's** used the social media site Renren.com to market burgers and sundaes to customers in China.

■ Social Media Restrictions- Authoritarian Countries

■ Some national governments restrict access to social media, fearing that it can accelerate social movements.

Manufacturing

■ Revolutionary developments now permit low-scale and low-cost manufacturing, with the support of computer-aided-design (CAD) of products, robotics, and production lines managed and monitored by microprocessor-based controls.
■ International business benefits:

- Products are adapted to local markets more efficiently
- Small national markets can be profitably targeted
- Competitive parity with foreign competitors that enjoy cost advantages.

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Transportation

■ The decision to **export** or **manufacture** abroad rests with the transportation costs of raw materials, components, and finished products.
■ Technological advances have led to the development of fuel-efficient jumbo jets, giant ocean-going freighters, and low-cost shipping, leveraging new transportation technology which has reduced shipping times and costs.
■ **Exhibit 2.5-** illustrates the **Rising Transportation Usage Over Time**, depicting how transportation of products has been revolutionized over time.
■ **Sustainability**- Growing transportation poses an increasing threat to the natural environment, in terms of the usage of energy and other resources.

■ **1992-2012-** the number of containers transported internationally increased by nearly five times. Over 175 million 20- foot equivalent units are shipped annually.
■ Maersk (Shipbuilder) introduced container ships that can carry upwards of 9,000 40-foot shipping containers.
■ These "Triple E" vessels provide economies of scale, energy efficiency and are environmental friendly.
■ These transport goods mainly between Europe and Asia because they are too wide to pass through the Panama Canal, and only massive ports can handle them.
■ The plummeting cost of transportation, as a proportion of the value of products shipped internationally, has dramatically declined, spurring rapid growth in cross-border trade.

DIMENSIONS OF MARKET GLOBALIZATION

■ In the context of international business, market globalization may be viewed simultaneously as:
(a) Consequences of the Drivers of Market Globalization;
(b) Drivers and consequences of Firm-level Internationalization;
(c) Drivers and consequences of Societal Internationalization.

■ Globalization of markets is a multifaceted phenomenon, with six major dimensions:

1. Integration and interdependence of national economies.

■ The multicounty *aggregate* activities of reconfiguring and integrating value-chain activities gives rise to *economic integration*.
■ **Value chain:** The sequence of value-adding activities performed by a firm in the process of creating a product: R&D, procurement, manufacturing, marketing, distribution, sales and service.
■ **Governments** contribute to this integration by:

(1) Gradually lowering trade and investment barriers;

(2) Harmonizing their monetary and fiscal policies *within regional economic integration* blocs (also known as trade blocs), e.g. EU;

(3) Creating *supranational* institutions that transcend national borders and involve cooperation among several countries that seek further reductions in trade and

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investment barriers, e.g. the World Bank, International Monetary Fund, World Trade Organization, etc.

2. Rise of regional economic integration blocs.

■ Emergence of **regional economic integration blocs** since the 1950s

■ **Trade bloc**: consist of groups of countries within which trade and investment flows are facilitated through reduced trade and investment barriers.

■ **Examples**- the North American Free Trade Agreement area (*NAFTA*), the Asia Pacific Economic Cooperation zone (*APEC*), and *Mercosur* in Latin America.

■ In more advanced stages (common market), barriers to the cross-border flow of capital and labor, are also removed- e.g. European Union (www.europa.eu).

■ Currently, the only example of an economic and monetary union is the European Union with its common currency of the *euro*.

■ In addition to adopting free trade among its members, it is harmonizing fiscal and monetary policies and adopting common business regulations

3. Growth of global investment and financial flows.

■ Foreign direct investment (FDI) has grown dramatically due to global sourcing.

■ Firms and governments undertake global currency trading to finance cross-border trade and investment.

■ The globalization of capital, i.e. the free movement of capital (denominated in dollars, euros, yen, and other world currencies) around the world extends economic activities across the globe and fosters interconnectedness among world economies.

■ Commercial and investment banking has become a global industry.

■ The bond market has gained worldwide scope, with foreign bonds representing a major source of debt financing for governments and firms.

■ **Negative effect of integration:**

Examples-

- **2008-** When the U.S. experienced a banking crisis, the contagion quickly spread to Europe, Japan, and emerging markets, triggering a global recession.
- **1997-** When Thailand and Malaysia experienced a monetary crisis, it quickly spread to South Korea, Indonesia, the Philippines and elsewhere, causing prolonged recession in most East Asian economies.

4. Convergence of consumer lifestyles and preferences.

■ Lifestyles and preferences are converging, i.e. increasingly *standardized*, resulting in global market segments.

■ Global media and the Internet contribute to the convergence of buyer preferences, in part by emphasizing/commercializing a particular lifestyle.

■ **Universal demand:**

■ **Examples-**

- Goods, clothing, automobiles, and electronics.
- iPods, Levi's jeans, & Hollywood movies (*Transformers* and *The Hunger Games*).

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- Professional buyers source raw materials, parts, and components that are increasingly *standardized*.

■ **Double-edged sword-** While converging tastes facilitate the marketing of standardized products/services to global consumers, they also signal the loss of traditional lifestyles, values in individual countries and national sovereignty.

5. Globalization of production.

■ Intense global competition has made *economies of scale* a critical key success factor. Global players are forced to evaluate global sourcing and standardization, capitalizing on national differences in the cost and quality of factor inputs.

■ **Offshoring-** This explains why auto and textile firms have relocated to low labor-cost locations such as China, Mexico, and Poland.

6. Globalization of services

■ The services sector is undergoing internationalization and global sourcing.

■ Firms in banking, hospitality, retailing, and other service industries are rapidly expanding abroad.

■ **Examples-**

- The real estate giant RE/MAX has established more than 5,000 offices in over 50 countries.
- The French firm Accor operates hundreds of hotels worldwide.

■ **F**irms increasingly outsource business processes and other services-based value chain activities to vendors located abroad.

■ In a new trend, people are increasingly going abroad to take advantage of low-cost medical procedures.

- *Medical tourism* – consumers travel abroad for medical procedures such as hysterectomies, cataract, knee and cosmetic surgeries.

■ The distribution of foreign direct investment has changed markedly, from an emphasis on manufacturing to services.

FIRM-LEVELCONSEQUENCES OF MARKET GLOBALIZATION: INTERNATIONALIZATION OF THE FIRM'S VALUE CHAIN

■ The most significant implication of market globalization is on the firm's value chain.

■ Globalization compels firms to internationalize their value chain, and adopt a **global rather than a local focus- sourcing decisions are key to achieve cost advantages and time efficiencies.**

■ **Value chain:** The sequence of value-adding activities performed by a firm in the process of creating a product: R&D, procurement, manufacturing, marketing, distribution, sales and service.

■ The value chain concept is useful in international business because it helps clarify ***wha***t activities are performed ***where*** in the world.

■ Value chains vary in complexity and across industries and products.

■**Upstream activities**= Research and development, procurement, and manufacturing.

■**Downstream activities**= Marketing, distribution, and sales and service.

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■ Exporting firms perform most "upstream" value-chain activities (R&D and production) in the **home** market and most "downstream" activities (marketing and after-sales service) **abroad**.
■ Each value-adding activity is subject to *internationalization* - it can be performed in a foreign market instead of at home, sometimes in collaboration with local business partners.
■ **Exhibit 2.6** portrays a value chain for a typical international firm, underscoring the flexibility that firms have in reconfiguring their value-adding activities.

■ **Outsourcing**- The value-adding activity is delegated to an external supplier, as opposed to being internalized within the company.
■ **Global outsourcing-** the external supplier is located abroad.
■ **Offshoring**- Relocates a major value chain activity- e.g. relocating a factory or other subsidiary abroad
■ **Reasons** for locating value-chain activities in particular countries:
- Reduce the costs of R&D and production
- Gain closer access to customers.

■ **Examples of Globalization Realities** –

- **BMW** launched a new factory in South Carolina, thus could manufacture cars cost-effectively while more readily accessing the U.S. market. BMW created thousands of high-paying, better-quality jobs for U.S. workers
- **Jackson Mills**, an aging textile plant, closed its doors, shed thousands of workers and sourced textiles more cost-effectively, with comparable quality, from Asian suppliers.

■ **Globalization drove these firms to relocate key value-adding activities to the most advantageous locations around the world.**

■ **Exhibit 2.7-** Underscores the significance of a global marketplace in that firms face intense rivalry from foreign and domestic competitors.
- **1989-** General Motors, Ford, and Chrysler together held nearly **75%** of the market share in light vehicle sales in the U.S.
- **2015-** This percentage had fallen to **46%** as the market shares of Toyota, Hyundai, and others rose dramatically.

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You Can Do It: Recent Grad in IB: Terrance Rogers

Terrance's majors: Finance and International Business
Objectives: Exploration, international perspective, self-awareness, career growth, and learning about foreign markets
Internships during college: Deutsche Bank

Jobs held since graduating:
●Business Analyst at Deutsche Bank, New York
●Management Associate at Deutsche Bank, New York
●Executive Management Rotation at Deutsche Bank, New York
●Executive Management Associate at Deutsche Bank, London and New York

His college's International Business Certificate program coupled with a study abroad program to Paris and Brussels, ignited Terrance's passion for finance, learning about different cultures and working abroad. After graduation, Terrance launched his career as a business analyst with Deutsche Bank in New York, which gave him experience in regulatory change, process improvement, and crisis management.

Terrance was promoted to management associate, working directly with the Chief Operations Officer of the Americas for his division. After four years, Terrance took a position with numerous international responsibilities.

Today, Terrance is an Executive Management Associate, leading business strategy, finance analysis, and communications for the United Kingdom Executive Team, working directly with the Head of Marketing and Communications to craft and execute communication strategy for the Chief Executive Officer.

Terrance's Advice for an International Career
Major clients don't just reside in the U.S. anymore, so if you want to have a long impactful career, you must find a way to gain some international exposure. Your boss will rely on you to be able to work with business associates from different cultures. Your clients will expect you to understand issues with a global perspective.

Success Factors
(a) Work on projects that expose you to people in different regions across the globe; (b) Share your interest in working abroad early and bring it up in your annual review; and (c) Impress the people who can make it happen.

Challenges
●"Challenges like language barriers and cultural differences are things that should be faced as soon as you can in your career.
●Don't be afraid to make a mistake. It's much better to learn from cultural missteps now, so that you can be a better business leader tomorrow."
●Globalization is a major dimension of business today.

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SOCIETAL CONSEQUENCES OF GLOBALIZATION

■ **Positive consequences** of market globalization:

◘ Advances in living standards;

◘ Cross-border trade and investment opened the world to innovations and progress while increasing performance standards, known as *global benchmarking* or *world class*.

■ **Negative consequences** of market globalization:

◘The transition to an increasingly single, global marketplace poses challenges to individuals, organizations and governments.

◘ Poverty is especially notable in Africa, Brazil, China and India where lower-income countries have not been able to integrate with the global economy as rapidly as others.

◘ Globalization has created countless new jobs and opportunities around the world, but it has also cost many people their jobs.

UNINTENDED CONSEQUENCES OF GLOBALIZATION

Contagion: Rapid Spread of Monetary or Financial Crises

■ **2008-** The world economy experienced a severe financial crisis and global recession-the worst in decades.

Antecedents

■ Precipitated by unsustainably high prices in housing and commodities markets worldwide.

■ As **real estate** markets tumbled, home values crashed, leaving owners with mortgage debts greater than the value of their homes.

■ Homeowners were unable to repay their debts, a situation that worsened as people lost jobs or experienced pay cuts.

■ High **commodity** prices resulted partly from rising demand, especially in emerging markets such as China and India.

■ Thousands of mortgages had been **securitized**, that is, bundled and sold as investments on stock markets worldwide.

■ U.S. - Spending/Borrowing Mindset

◘ 2000's- U.S. Federal Reserve Bank charged very low interest rates to banks-Easy bank loans

◘ Easy money - Widespread borrowing by consumers to purchase homes and durable goods, which led to an unsustainable overheating of the U.S. economy

◘ Inadequate regulation of mortgage markets (e.g. subprime mortgages) and the banking sector in the U.S.

◘ A strong legal and regulatory framework is critical to national economic well-being

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■ **China - Savings Mindset**

- High savings rate, huge pool of money
- Chinese loaned funds to the U.S., in effect, buying U.S. Treasury bonds (nearly $800 billion in 2009)
- The savings glut in China, other emerging markets, and the oil-producing countries translated into lower interest rates in the U.S. and elsewhere, which further facilitated borrowing.

Concepts

■ **Recession** occurs when a national economy undergoes a prolonged period of negative growth.

■ **Contagion-** The tendency of a financial or monetary crisis in one country to spread rapidly to other countries, due to the ongoing integration of national economies.

Consequences

■ The financial crisis struck at the core issues of globalization and raised questions concerning its merits.

■ As the value of the mortgage securities plunged or became uncertain, the stock markets crashed.

■ Consumer confidence dwindled, triggering substantial declines in spending on cars, consumer electronics, home appliances, luxury goods, gasoline, bank loans, and new homes.

■ Spending decreased, impacting global commerce. Trade slowed or flattened in consumer durables, energy, financial services, new construction, and related industries.

■ **2009-10-** Global growth declined sharply to levels not seen since World War II.

■ **Catalyst-** Although the crisis began in the U.S., national economies and banking systems had been integrated through **technology**, so the contagion spread quickly around the globe.

■ Canada and Mexico slipped into recession partly due to their heavy reliance on trade and investment with the U.S.

■ Japan, New Zealand, Turkey, the U.S., and most countries in Europe experienced significant recessions.

■ Of the largest world economies, only **China**'s continued to grow at a rate of over **6%** per year.

■ Advanced economies were significantly impacted, emerging markets and developing economies were more resilient than in previous global downturns, although growth in these countries has slowed considerably.

■ **Global Interconnectedness**- Living standards were severely affected and millions of people worldwide fell into deeper poverty. This occurred largely because developing economies depend on exports to, and direct investments from, the advanced economies that have all been hurt by the crisis.

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■ In order to stimulate economic activity, governments worldwide pumped hundreds of billions of dollars into their national economies. A key implication of recent events is that, when financial markets are unchecked or unregulated, crises spread quickly and take on global scale.
■ The recent "European debt crisis" arose from various factors, especially the globalization of finance, real-estate bubbles, easy money, relaxed credit conditions, and excessive spending by national governments.
■ **2010-** European Union provided rescue packages for Greece, Ireland and Portugal, which found themselves unable to re-finance their own debts.
■ **Changes-** Greater government intervention and the co-ownership of many private-sector enterprises.
■ **2012-** Major economic recovery helped drive worldwide economic growth.

■ **Exhibit 2.8** illustrates how GDP growth in advanced, developing, and emerging economies varies over time. In all three types of economies, GDP declined substantially, due to the global recession and the financial crisis.

■ **Historical Learning Point-** even following deep recessions, the global economy has always rebounded to net GDP growth.

Loss of National Sovereignty

■ *Sovereignty* is the ability of a nation to govern its own affairs.
■ One country's laws cannot be applied or enforced in another country.
■ **Globalization** can threaten national sovereignty.
- MNE activities can interfere with the sovereign ability of governments to control their own economy, social structure, and political system.
- Some corporations are bigger than the economies of many nations, e.g. Walmart's total revenue is larger than the GDP of most nations, including Israel, Greece, and Poland.
- Large multinationals can exert considerable influence on governments through lobbying or campaign contributions, e.g. a devaluation of the home currency would allow them greater price competitiveness in export markets.

■ Still, even the largest firms are constrained by ***market forces***.
■ The resources that buyers and suppliers control are the result of free choice.
■ In reality, market forces dominate companies.
■ Some argue that gradual integration of the global economy and increased global competition combined with privatization of industries in various nations are making companies ***less powerful***, e.g. Ford, Chrysler, and General Motors once dominated the U.S. auto market. Today many more firms compete in the U.S., including Honda, Hyundai, Nissan, and BMW, with **Toyota** leading the U.S. market.
■ Home-country market shares of domestic U.S. automakers have tumbled.
■ To minimize globalization's harm and reap its benefits, governments should strive for an open and liberalized economic regimes:
(1) Freedom to enter and compete in markets;
(2) Protection of private and intellectual property;

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(3) Law enforcement;
(4) Support voluntary exchange through markets vs. political processes.

Transparency of business and regulatory agencies is critical.

■ Governments sometimes scrutinize corporate activity, e.g. Sarbanes-Oxley Act of 2002 in the U.S.
■ This legislation was a response to a series of major corporate and accounting scandals including those involving Enron, Tyco International, and WorldCom.
■ A decline in public trust of accounting and reporting practices led to this legislation which introduced new/enhanced standards for all U.S. public company boards, management, and public accounting firms.

Offshoring

■ ***Offshoring*** is the relocation of manufacturing and other value-chain activities to cost-effective destinations abroad.
■ **Examples-**
- **Ford, General Motors**, and **Volkswagen** all have transferred thousands of jobs from their factories in Germany to countries in Eastern Europe.
  - Partially due to mandated shorter working hours (often just 35 hours per week) and generous benefits made Germany less competitive, while Eastern Europe offers abundant low-wage workers
  - In reaction, the German government loosened Germany's labor laws to conform to global realities, disrupting the lives of tens of thousands of German citizens.
  - **Ford** and **General Motors** have also laid off thousands of workers in the U.S., resulting from competitive pressures from European, Japanese, and South Korean carmakers.
- **Ernst & Young** relocated much of its support work to the Philippines.
- **Massachusetts General Hospital** has its CT scans and X-rays interpreted by radiologists in India.
- Many IT support services for customers in Germany are based in the Czech Republic and Romania.

Offshoring Waves

■ Offshoring has resulted in **job losses** in many mature economies with relatively high wages.
■ **1960s-1970s-** The first wave of offshoring began with the shift of U.S. and European manufacturing of cars, shoes, electronics, textiles, and toys to cheap-labor locations such as Mexico and Southeast Asia.
■ **1990s-** The next wave ensued with the exodus of service sector jobs in credit card processing, software code writing, accounting, health care, and banking services.

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■ Multinationals have been the focus of criticisms, labeled as “runaway” or “footloose” corporations - quick to relocate production to countries that offer better comparative advantages.

■ **Examples-**

◘ **Polaris**, the U.S. manufacturer of snowmobiles and all-terrain vehicles, moved its Osceola, Wisconsin, factory to Mexico. Closure of the plant, which once provided 515 jobs, devastated the small Wisconsin community, population 2,085. Management shifted manufacturing to Mexico in order to reduce production costs.

◘ **Electrolux**, a Swedish manufacturer of home appliances, moved its Greenville, Michigan, refrigerator plant to Mexico. Electrolux had provided 2,700 jobs in this western Michigan community of 8,000. Despite repeated appeals by the local community, the labor union, and the State of Michigan, offering incentives to the company to stay, Electrolux went with its decision to shift manufacturing to Mexico.

■ MNEs do create millions of jobs abroad, which help raise living standards.

◘ **Example**- U.S. MNEs now employ about one million workers in each of Canada, China, Mexico, and the United Kingdom. Such positions help raise living standards in developing economies and emerging markets.

■ Advantages of offshoring:

(1) Economies of scale by centralizing production locations;
(2) Low-cost labor advantages in certain countries; and
(3) Knowledge-sharing from contracting with experienced suppliers.

■ Those facing intense competition, shrinking profit margins, and unfavorable industry trends, may achieve corporate survival through offshoring.

■ Countries with low cost inputs and more favorable business environments clearly benefit from offshoring, e.g. China, India, Mexico, Brazil, and Poland.

Reshoring

■ ***Reshoring*** – the return of manufacturing and services back to the home country. ■ **Example**s-

◘ **Apple** returned some computer manufacturing to the U.S.
◘ **General Electric** returned washer and dryer production to the U.S.

■ **Reshoring rationale**

◘ Rise of wages and other costs in emerging markets
◘ Desire get closer to key customers in the advanced economies

Effect on the Poor

■ **Criticisms of MNEs:**

◘ Paying low wages
◘ Exploiting workers
◘ Employing child labor

■ Child labor is particularly troubling because it denies children educational opportunities that would contribute to their future development.

■ International Labor Organization (www.ilo.org) reports that over **200 million** children

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aged 5–14 work worldwide.

■ **Example- Nike** has been criticized for paying low wages to shoe factory workers in Asia, some of whom work in sweatshop conditions. Critics complained that while founder Phil Knight is a billionaire and Nike shoes sell for $100 or more, some of Nike's suppliers pay their workers only a few dollars per day.

■ Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
■ Unfortunately, consideration must be given to the other choices available to people in those countries.
■ **A low-paying job may be better than finding no work at all.**

Negative Unintended Consequences

■ Reduced living standards.
■ Legislation that reduces child labor in the formal economic sector may have little effect on jobs in the informal economic sector (*underground economy)*.
■ Eliminating child labor does not automatically make children go to school instead of to work, and can worsen their living standards.
■ The concept of ***Ethical Relativism*** is important here, i.e. ethics can only be judged within its own context. Examining the job portfolio in Country X, if commensurately skill-based jobs pay similar wages, then relative to that country, the wages are reasonable. Relative to U.S. standards, they may not be. Also, although child labor is deplorable, the U.S. exploited children in much the same way until the Child Labor laws were passed.

■ In poor countries, globalization creates jobs and tends to raise wages, yet may also result in job losses as automation is implemented for labor-intensive jobs, e.g. in **India** the hand-woven textiles industry will soon replace the millions of people employed through the increased use of automation.
■ Critics insist that such workers be given a "decent wage", yet legislation to increase minimum wage levels can also reduce the number of available jobs.
■ Countries that attract investment due to low-cost labor eventually lose their attractiveness as wages rise.

Positive Long-Term Consequences

■ For most developing countries, globalization supports improved working conditions, higher wage growth, a growing economy and improved standards of living.
■ **Example-**
- **Vietnam-**The growth of the footwear industry in Vietnam translated into a five-fold increase in wages.

■ Countries that liberalize international trade and investment enjoy faster per-capita economic growth.
■ Developing economies that seek to integrate with the rest of the world tend to have

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faster per-capita GDP growth

■ **Exhibit 2.9** depicts the Growth of World GDP, 2006-2015.
■ Most nations experienced positive growth.
■ China and India are the fastest growing economies, registering annual GDP growth rates of 9.5% and 7.0%, respectively.
■ Most African countries continue to suffer low or negative GDP growth and alarming poverty, which worsened during the global recession.

■ **Exhibit 2.10** illustrates how global poverty is declining over time.
- Depicted are the number of people living on $2.00 (*poverty*) or $1.25 (*extreme poverty*) per day, as defined by the World Bank.
- Overall, the number of people living in poverty in East and South Asia, and Sub-Saharan Africa has declined consistently for the past few decades,
- Much of the improvements are due to international trade and investment activities
- Only Sub-Saharan Africa has shown little improvement in income status during this time.

■ The unintended consequences of globalization place greater responsibility on governments to ensure that the fruits of economic progress are shared fairly, and all citizens have access to improved welfare, living standards, and higher-value-adding, higher-paying jobs.
■ Developing countries can engage in a number of proactive measures in order to reduce poverty:
- Improve conditions for investment and saving;
- Liberalize markets and promote trade and investment;
- Build strong institutions and ensure good governance; and
- Invest in education and training to promote productivity upward mobility.

■ In turn advanced economies can play a role in reducing global poverty by:
- Making their markets more accessible to low-income countries;
- Providing debt relief to heavily indebted nations; and
- Facilitating the flow of technology, private capital, and direct investment into poor countries.

Effect on Sustainability and the Natural Environment
■ Globalization harms the environment by promoting manufacturing and economic activity that result in **pollution, habitat destruction, and deterioration of the ozone layer.**
■ **Example- China** is attracting much inward FDI and stimulating the growth of numerous industries, which results in new factories, infrastructure, and modern housing can spoil previously pristine environments; also, growing industrial demand for

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electricity led to construction of the **Three Gorges Dam**, which flooded agricultural lands, displaced one-million inhabitants and permanently altered the natural landscape in Eastern China.

■ Over time, governments pass legislation that promote improved environmental conditions; as globalization stimulates rising living standards; increasingly people focus on improving their environments

■ **Example**- **Japan** endured polluted rivers and smoggy cities in the early decades of its economic development following World War II. As Japan's economy grew, the Japanese passed tough environmental standards to restore their natural environments.

■ Evolving company values have led to **Corporate Social Responsibility** (CSR) or **Corporate Citizenship.**

■ **Examples-** of firms that embrace practices that protect the environment, often at the expense of profits

- Ford and GM (U.S. automakers) in Mexico
- Benetton in Italy (clothing)
- Alcan in Canada (aluminum)
- Kirin in Japan (beverages)
- The Conservation Coffee Alliance, a consortium of companies, has committed approximately $2 million to environmentally friendly coffee cultivation in Central America, Peru, and Colombia.

Effect on National Culture

■ Globalization pressures national culture.

■ Market liberalization opens the door to foreign firms, global brands, unfamiliar products, and different values.

■ In the business sector, firms employ global technologies and production methods, leading to more universal operating methods and outputs.

■ Propelled by advertising and Hollywood, consumers increasingly wear similar clothing and drive similar cars, watch the same movies, listen to the same recording stars, increasingly modeled to Western countries, especially the U.S.

■ Thus, people's norms, values, and behaviors tend to **homogenize** over time. Transnational advertising lead to the emergence of societal values

■ **Critics** call these trends the "McDonalds-ization" or the "Coca-Colonization" of the world, referring to a type of cultural colonization.

■ Governments try to block "**cultural imperialism**" and prevent the erosion of local traditions.

■ Hollywood, McDonald's, and Disneyland are seen as Trojan horses that permanently alter food preferences, lifestyles, and other aspects of traditional life- inevitable with globalization.

■ **Homogenization** is accelerated by technology- through exposure, appetites grow for Western products and services, which signal higher living standards.

■ **Example**- Despite low per-capita income, many Chinese buy consumer electronics such as cell phones and TV sets.

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■ Global media have a pervasive effect on the local culture, gradually shifting it toward a universal norm.

■ **Flow of cultural influence goes both ways.**
■ **Examples-**
◘ **India-** Cafe Spice (http://cafespice.com) is an Indian food company whose founder hails from Mumbai, which is transforming American tastes by selling curry dishes and other Indian favorites in cafeterias and supermarkets. Cafe Spice is making Indian cuisine mainstream in the U.S.
◘ **China-** As the influence of the Chinese economy grows over time, Western countries will likely adopt cultural norms from China as well. Chinese restaurants and some Chinese traditions are already a way of life in much of the world outside China.
◘ **Japan-** Advanced Fresh Concepts is a Japanese food company that is transforming American fast food by selling sushi and other Japanese favorites in supermarkets throughout the U.S.

■ **Cultural imperialism** is offset by the countertrend of **local nationalism**.
■ **Heterogeneity** remains strong in religious differences, indigenous languages and national identity.
■ **Protecting National Identity**
◘ **Examples-** Belgium, Canada, and France, laws were passed to protect national language and culture.

Globalization and Africa

■ Africa is home to the poorest countries. The majority of its one billion people live on less than $2 a day. It is the area least integrated into the world economy and accounts for less than 3% of world trade
■ Although it has abundant natural resources, Africa remains underdeveloped due to inadequate commercial infrastructure, lack of access to foreign capital, high illiteracy, government corruption, wars, and the spread of AIDS.
■ After decades of stagnation, several sub-Saharan African countries have experienced rapid economic growth thanks to increasing international trade in commodities.
◘ **Examples-** Africa is a major supplier of petroleum to Europe and the U.S.; Angola is among the top oil suppliers to China.
■ **Ripple effect** - certain sectors in Africa have boomed along with the economic development - foreign banks, retailers, and MNEs have set up operations in the continent.
■ In formerly war-torn **Rwanda**, countless business opportunities have emerged in mining, tourism, telecommunications, and real estate.
■ China and India are beating out U.S. firms and quickly increasing their business in Africa.
■ International trade and investment are helping to address many of Africa's most pressing development needs.

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■ **Samsung-** set a $10 billion sales goal in Africa; committed to training 10,000 African engineers and technicians to develop the capabilities needed for success.
■ Many years before Africa achieves a critical mass of infrastructure and business culture sufficient to raise within-continent average incomes.

IV. CLOSING CASE
DEBATING THE GOOD AND HARM OF GLOBALIZATION

- **Summary [Identifying key issues]**

■ The interchange among the following three participants underscores the various pro and con issues embedded in the issues of globalization, and the diverse perspectives of globalization held by different interest groups.

Players:
■ **Activist-** an anti-international business advocate
■ **Business Executive** - with extensive international dealings
■ **Trade Official** - represents the federal government

ACTIVIST

■ Globalization:

◘ Ignores human rights and employs substandard working conditions- low wages and exploited workers.

◘ Results in domestic job losses.

◘ Detrimentally affects the natural environment - with increased international trade, the more irreparable the harm, e.g. pollution, ecological imbalances and deterioration of the ozone. (Countries with weak environmental standards, will have factories with minimal environmental standards)

◘ Interferes with the sovereignty of national governments.

◘ Impedes with government policies, e.g. when a firm like General Motors is a nation's biggest company, as it is in Canada; it is more difficult for governments to manage policies regarding taxes, monetary policy, social issues, and exchange rates.

◘ Imposes Western cultural standards on the rest of the world, e.g. McDonald's is everywhere. They see the U.S. as a dominating power that uses globalization to its own advantage, harming the economic, cultural, and environmental interests of the rest of the world.

◘ Limits the benefits of technologies to those who can afford to access it.

◘ Widens the gap between rich and poor, i.e. weakening poor countries.

◘ Hampers infant industries in developing economies.

◘ Poverty resulting from contagion caused by the recent global financial and economic crisis

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■ Governments have not done enough to regulate the excesses of capitalism. This was evident in the global financial and economic crises, from which the world is still recovering.

BUSINESS EXECUTIVE

■ Participants in the global economy:

◘ Provide better-paying jobs, have more profits, pay higher taxes, and stimulate purchases from local suppliers.

◘ Create new jobs, enhance local living standards, and challenge firms to stay competitive in a challenging global marketplace.

◘ Exporters pay higher wages and provide better benefits than non-exporting firms.

◘ Need access to foreign markets in order to recoup their return on investment, especially firms heavily invested in R&D, e.g. those in the pharmaceutical industry.

◘ Increase living standards worldwide through international trade

◘ Argue that a good economy and a clean environment are not mutually exclusive. The more affluent people are, the more they will care about their environment and pass laws to protect it.

◘ Firms increasingly recognize the importance of being good global citizens- **Motorola** has profited from its business in China, but it has also contributed to the development of educational systems in that country.

◘ Japanese MNEs invest in the communities where they do business.

◘ **Bill Gates** is going to do more than any government to get people computers and get them hooked up on the Internet. He has created the largest fund to combat diseases of the poor, e.g. Malaria. He and **Warren Buffett** are tackling many of these diseases such as AIDS.

◘ **GlaxoSmithKline** is working with the World Health Organization to find a cure for Elephantiasis.

◘ In the long run, uninterrupted international commerce is good for everyone

TRADE OFFICIAL

■ Free trade is strongly valued by the current administration, as are freedom and democracy:

◘ The administration strongly supported NAFTA, and this already had a positive impact on the U.S. economy, increasing exports to Mexico, creating jobs for Americans, and leading to improved investment opportunities.

◘ Canada recently completed a free-trade agreement with Chile.

◘ Economic ties lead to cultural ties and more peaceful relations.

◘ When negotiating trade agreements, advocates should commensurately consider environmental factors.

◘ Proponents of worldwide freedom and democracy must also endorse free trade.

◘ Globalization is complex and the pros and cons are intertwined.

◘ Since the 1980s, globalization has grown, and global poverty has declined.

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◘ It is true that income disparities have increased over the last 50 years while international trade has integrated the world economy.

◘ The world has experienced an overall rising tide in terms of standard of living.

◘ It is better to live in a world in which 20% of the people are affluent and 80% are poor, than a world in which nearly 100% of the people are poor, as was the case throughout most of human history.

◘ Countries benefit from trade, but governments are responsible for protecting citizens from the negative or unintended consequences that may result from trade.

● SUGGESTED SOLUTIONS TO CASE QUESTIONS

2-4. Do you think globalization and MNE activity are creating problems for the world? What kinds of problems can you identify? What are the unintended consequences of international business?

(LO 2.1; LO 2.6; AACSB: Application of knowledge)

As the Activist Argues that Globalization is Cultural Imperialism with severe consequences on nations, cultures, people and the environment.

■ Globalization:

◘ Ignores human rights and employs substandard working conditions- low wages and exploited workers.

◘ Results in domestic job losses.

◘ Detrimentally affects the natural environment, with increased international trade, the more irreparable the harm, e.g. pollution, global warming, ecological imbalances, and habitat destruction.

◘ Interferes with the sovereignty of national governments.

◘ Impedes with government policies, e.g. when a firm like General Motors is a nation's biggest company, as it is in Canada; it is more difficult for governments to manage policies regarding taxes, monetary policy, social issues, and exchange rates.

◘Imposes Western cultural standards on the rest of the world, e.g. McDonald's is everywhere. This effect is especially profound in the Middle East, where Islamic activists oppose MNEs due to the imposition of alien values in secular terms. They see the U.S. as a dominating power that uses globalization to its own advantage, harming the economic, cultural, and environmental interests of the rest of the world.

◘ Limits the benefits of technologies to those who can afford to access it.

◘ Widens the gap between rich and poor, i.e. weakening poor countries.

◘ Hampers infant industries in developing economies.

2-5. Summarize the arguments in favor of globalization made by the business executive. What is the role of technology in supporting company performance in a globalizing business environment?

(LO 2.3; AACSB: Application of knowledge)

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Economic "globalization" refers to the increasing integration of economies around the world. It also refers to the movement of goods and services (international trade), people (labor), capital and knowledge (technology) across international borders.

Pro- globalization arguments:

■ Participants in the global economy:

◘ Provide better-paying jobs, have more profits, pay higher taxes, and stimulate purchases from local suppliers.

◘ Create new jobs, enhance local living standards, and challenge firms to stay competitive in a challenging global marketplace.

◘ Pay higher wages and provide better benefits than non-exporting firms.

◘ Need access to foreign markets in order to recoup their return on investment, especially firms heavily invested in R&D, e.g. those in the pharmaceutical industry.

◘ Increase living standards worldwide through international trade.

◘ Argue that a good economy and a clean environment are not mutually exclusive. The more affluent people are, the more they will care about their environment and pass laws to protect it.

◘ Recognize the importance of being good global citizens- **Motorola** has profited from its business in China, but it has also contributed to the development of educational systems in that country. **Bill Gates** is going to do more than any government to get people computers and get them hooked up on the Internet. He has created the largest fund to combat malaria. He and **Warren Buffett** are tackling Aids. **SmithKline Beecham** is working with the World Health Organization to find a cure for Elephantiasis.

■ **Technology enables globalization:** Technological advances in communications, information, manufacturing, and transportation have served as a remarkable facilitator of cross-border trade and investment.

■ The twin trends of globalization and technology transform national economies and promote outsourcing/offshoring.

■ Information technology allows for more efficient adaptation to international markets as well as producing smaller lot sizes to target niche markets.

■ Among the industries most dependent on technological innovation are biotechnology, information technology, new materials, pharmaceuticals, robotics, medical equipment and devices, lasers and fiber optics, and various electronics-based industries.

■ IT alters industry structure, changes the rules of competition, and creates new ways to outperform rivals, thus forming the basis for competitive advantage.

■ Smaller firms can leverage IT to design and produce customized products that can be targeted to narrow, cross-national niches.

■ The impact of IT on our daily lives has been profound- cell phones, Google, Yahoo, etc.

■ IT supports strategic decisions such as the selection of qualified foreign business partners based on sound information and intelligence.

2-6. What are the roles of state and federal governments in dealing with globalization? What is government's role in protecting citizens from the potential

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negative effects of foreign MNEs conducting business in your country? What kinds of government actions would you recommend?
(LO 2.1; LO 2.2; AACSB: Reflective thinking)

■ To minimize globalization's harm and reap its benefits, governments should strive for an open and liberalized economic regime:

- Freedom to enter and compete in markets
- Protection of persons and intellectual property
- Rule of law
- Voluntary exchange imposed by markets rather than through the political process
- Regulation of credit, labor and business
- Transparency of the economic actors including businesses and regulatory agencies is fundamentally critical, e.g. Sarbanes-Oxley Act of 2002

■ Advanced economies can play a role in reducing poverty by:

- Making their markets more accessible to low-income countries;
- Facilitating the flows of direct investment, other private capital, and technology into low income countries; and
- Providing debt relief to heavily indebted poor countries.

■ The unintended consequences of globalization place greater responsibility on governments to ensure that the fruits of economic progress are shared equally, and all citizens have access to improved welfare, living standards, and higher-value-adding, higher-paying jobs.

2-7. What is the role of education in: (i) addressing the problems raised in the roundtable; (ii) creating societies in which people can deal effectively with public policy issues; and (iii) creating citizens who can compete effectively in the global marketplace?
(LO 2.5; LO 2.6; AACSB: Reflective thinking)

■ Education has a responsibility to cultivate individuals who will become productive members of societies where diverse views such as those expressed by the Activist, the Business Executive and the Trade Official represented in this case are understood and respected.

■ The role of education is to be objective, to present all relevant perspectives and to endow individuals with a skill set that will enable them to analyze, synthesize and draw conclusions based on facts. This means that a diverse and broad educational foundation is paramount for strong, global leaders. Part of this education is an understanding of global firm imperatives:

1. Configure the value chain globally.
2. Collaborate with foreign partners.
3. Coordinate operations on a global scale.
4. Target global markets.
5. Standardize products, services, and brands
6. Build global capabilities and a global organization.

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V. END OF CHAPTER QUESTIONS

● TEST YOUR COMPREHENSION

2-8. Define globalization. What are the underlying dimensions of this megatrend?
(LO 2.1; LO 2.2; AACSB: Application of knowledge)

■ *Globalization* is a broad term referring to the interconnectedness of national economies and the growing interdependence of buyers, producers, suppliers, and governments in different countries.
■ Globalization allows firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge.
■ Two mega trends are underscored that have altered the international business landscape: the *globalization of markets or economies* and *technological advances*.

2-9. Is globalization a recent phenomenon? Describe the phases of globalization.
(LO 2.1; LO 2.2; AACSB: Application of knowledge)

■ Globalization is not a recent phenomenon. The origins date to the Roman Empire and earlier.
■ The word 'trade' comes from the Anglo-Saxon term *trada*, which means to walk in the footsteps of others.
■ Ancient trade routes were the foundation for a high level of cross-cultural exchange of ideas that lead to the development of religion, science, economic activity, and government.
■ The phrase "all roads lead to Rome" is not so much a metaphorical reference to Rome's dominance of the world 2,000 years ago, but to the fact that Rome's territorial colonies were constructed as **commercial resource centers** to serve the needs of the Roman empire and increase its wealth.
■ In an empire that stretched from England to Israel and from Germany to Africa, the Romans created more than 300,000 kilometers of roads. Roman roads were the life-blood of the state that allowed for trade to flourish.

Phases of Globalization

■ **Exhibit 2.1** summarizes the Phases of Globalization. Since the 1800s, the evolution of market globalization has witnessed **four distinct phases**, each triggered by global events and technological discoveries:

The First Phase of Globalization

1830 – 1880s

■ The *first phase of globalization* began about 1830 and peaked around 1880.
■ Cross-border commerce became widespread in this period due to the growth of railroads, efficient ocean transport, and the rise of large manufacturing and trading firms.

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■ The inventions of the telegraph and telephone in the 1800s facilitated information flows between and within nations and greatly aided early efforts to manage companies' supply chains.

The Second Phase of Globalization

1900 -1930

■ *The second phase of globalization* began around 1900 and was correlated with the rise of electricity and steel production.

■ This phase reached its height just before the Great Depression, a worldwide economic downturn that started in 1929.

■ At the turn-of-the-century, Western Europe was the most industrialized region and its colonization of countries worldwide led to the establishment of some of the earliest subsidiaries of multinational enterprises (MNEs).

■ European companies such as BASF, Nestlé, Shell, Siemens and British Petroleum had established foreign manufacturing plants by 1900.

■ The Italian manufacturer Fiat supplied vehicles to nations on both sides of the war.

The Third Phase of Globalization

1948 - 1970s

■ *The third phase of globalization* followed World War II.

■ At war's end in 1945, substantial pent-up demand existed for consumer products, as well as for resources to rebuild Europe and Japan.

■ Among the leading economies, the U.S. was least harmed by the war and became the world's dominant economy.

■ Substantial government aid helped stimulate economic activity in Europe.

■ Pre-war years had been characterized by high tariffs and strict controls on currency and capital movements.

■ Post-war, leading industrialized countries, including Australia, Britain and the U.S. sought to reduce international trade barriers.

■ The result of this effort was the *General Agreement on Tariffs and Trade* (GATT) – the precursor to the World Trade Organization (WTO).

■ GATT, emerging from the Bretton Woods Conference of 23 nations in 1947, served as a global negotiating forum for liberalizing trade barriers, and marked the beginning of a series of annual meetings aimed at reducing international trade and investment barriers.

■ Participating governments recognized that liberalized trade would stimulate industrialization, modernization, and better living standards.

■ Eventually, many more nations joined the GATT, and their efforts led to the formation of the WTO.

■ **WTO-** A multilateral governing body empowered to regulate international trade and investment.

■ Some 149 nations are now members of the WTO.

■ Additional global cooperation led to the formation of key international organizations such as the International Monetary Fund, the World Bank, and the United Nations.

■ Early multinationals from this third phase of globalization originated from the U.S., Western Europe, and Japan.

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■ Firms like Unilever, Philips, Royal Dutch-Shell, British Petroleum, and Bayer organized their businesses by establishing autonomous subsidiaries in each of the foreign countries where they did business.
Numerous companies developed strong brand names, including Nestlé, Kraft, John Deere, Kellogg, Lockheed, Caterpillar, Coca-Cola, Chrysler, Pepsi-Cola, Singer, and Levi's.
■ U.S. multinationals such as IBM, Boeing, Texas Instruments, Xerox, and McDonnell Douglas spread out across the globe, leveraging technological competitive advantages.
■ Gradually, MNEs began seeking cost advantages by locating factories in developing countries with low labor costs.
■ 1960s- Growing MNE activities and early efforts at trade liberalization resulted in substantial increases in international trade and investment.
■ **1960s/1970s- Recovered from World War II, MNEs in Europe and Japan began to challenge the global dominance of U.S. multinationals.**
■ With the easing of trade barriers and currency controls, capital began to flow freely across national borders, leading to integration of global financial markets.

The Fourth and Current Phase of Globalization 1980s - Present

■ *The fourth and current phase of globalization* began in the early 1980s.
■ This period witnessed enormous growth in cross-border trade and investment activity. The following innovations caused this phase:

- Commercialization of the personal computer
- Arrival of the Internet and Web browsers
- Advances in communication and manufacturing technologies
- Collapse of the Soviet Union and ensuing market liberalization in central and Eastern Europe
- Substantial industrialization and modernization efforts of East Asian economies including China

■ Growing global prosperity began to reach **emerging markets** such as Brazil, India and Mexico.
■ 1980s - Huge increases in FDI, especially in capital- and technology- intensive sectors
■ Internationalization made feasible for small and medium-sized enterprises (**SMEs**) - geographically distant yet electronically interconnected- due to technological advances in information, communications, and transportation.
■ These technologies also facilitated the globalization of the **service sector** in areas such as banking, entertainment, tourism, insurance, and retailing.
■ Growing integration inspired mergers/acquisitions such as GM acquiring Saab in Sweden, Ford taking over Mazda in Japan, and Daimler Benz acquiring Chrysler in the U.S.
■ Globalization and technological advances resulted in the "death of distance". That is, a shrinking world in terms of geographic and cultural distances that long separated nations.

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2-10. Summarize the six dimensions of globalization. Which of these do you think is the most visible manifestation of globalization?
(LO 2.4; AACSB: Application of knowledge)

There is no one right answer for the second part of this question, as long as you justify your selection. Here are the six dimensions:

A. Integration and interdependence of national economies.
■ The multicounty *aggregate* activities of reconfiguring and integrating value-chain activities gives rise to *economic integration*
■ Governments contribute to this integration by:
(1) Gradually lowering trade and investment barriers;
(2) Harmonizing their monetary and fiscal policies within regional economic integration blocs (also known as trade blocs), e.g. EU
(3) Establishing *supranational* institutions that transcend national borders and involve cooperation among several countries that seek further reductions in trade and investment barriers, e.g. the World Bank, International Monetary Fund, World Trade Organization, etc.

B. Rise of regional economic integration blocs.
■ Since the 1950s, the emergence of **regional economic integration blocs**
■ **Trade bloc**: consist of groups of countries within which trade and investment flows are facilitated through reduced trade and investment barriers.
■ **Examples**- the North American Free Trade Agreement area (*NAFTA*), the Asia Pacific Economic Cooperation zone (*APEC*), and *Mercosur* in Latin America.
■ In more advanced stages, barriers are also removed to the cross-border flow of capital and labor.
■ **Economic and Monetary Union:** A single market with a common currency. This is characteristic of more advanced stages of economic integration, where barriers to the cross-border flow of factors of production (mostly labor and capital) are removed.
■ **Example-** Currently, the only example of an economic and monetary union is the European Union with its common currency of the *euro*.
■ In addition to adopting free trade among its members, it is harmonizing fiscal and monetary policies and adopting common business regulations

C. Growth of global investment and financial flows.
■ Foreign direct investment (FDI) has grown dramatically due to global sourcing.
■ Firms and governments undertake global currency trading to finance cross-border trade and investment.
■ The globalization of capital, i.e. the free movement of capital (denominated in dollars, euros, yen, and other world currencies) around the world is extending economic activities across the globe and fostering interconnectedness among world economies.
■ Commercial and investment banking has become a global industry.
■ The bond market has gained worldwide scope, with foreign bonds representing a major source of debt financing for governments and firms.

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■ **Negative effect of integration, Examples-**

◘ **2008-** When the U.S. experienced a banking crisis, the contagion quickly spread to Europe, Japan, and emerging markets, triggering a global recession.

◘ **1997-** When Thailand and Malaysia experienced a monetary crisis, it quickly spread to South Korea, Indonesia, the Philippines and elsewhere, causing prolonged recession in most East Asian economies.

D. Convergence of consumer lifestyles and preferences.

■ Lifestyles and preferences are converging, i.e. increasingly *standardized*, resulting in global market segments.

■ Transnational media contribute to the convergence of buyer preferences, in part by emphasizing/commercializing a particular lifestyle observed in the U.S., Europe, or elsewhere.

■ **Double-edged sword-** While converging tastes facilitate the marketing of standardized products/services to global consumers, they also signal the loss of traditional lifestyles, values in individual countries and national sovereignty.

E. Globalization of production.

■ Intense global competition has made *economies of scale* a critical key success factor. Global players are forced to evaluate global sourcing to take advantage of national differences in the cost and quality of factor inputs.

■ This explains why offshoring to low labor-cost locations such as China, Mexico, and Eastern Europe is so popular.

F. Globalization of services

■ The services sector is also undergoing global sourcing.

■ Firms in banking, hospitality, retailing, and other service industries are rapidly expanding abroad.

■ **Examples-**

◘ The real estate giant RE/MAX has established more than 5,000 offices in over 50 countries.

◘ The French firm Accor operates hundreds of hotels worldwide.

■ **F**irms increasingly outsource business processes and other services-based value chain activities to vendors located abroad.

■ In a relatively new trend, people are increasingly going abroad to take advantage of low-cost services.

■ **Example-**

◘ *Medical tourism* – consumers travel abroad for medical procedures such as hysterectomies, cataract, knee and cosmetic surgeries.

■ The distribution of foreign direct investment has changed markedly, from an emphasis on manufacturing to services.

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2-11. Describe the five drivers of globalization.
(LO 2.2; AACSB: Application of knowledge)

A. Worldwide reduction of barriers to trade and investment.
■ National governments have sought to reduce trade and investment barriers, which has accelerated global economic integration.
■ The **World Trade Organization** (WTO) has facilitated this.
■ The WTO is a multilateral governing body empowered to regulate international trade and investment, and has been engaged in an ongoing liberalization of member states' economies since the late 1940s.
■ Joining the WTO in 2001, even China has committed to make its market more accessible to foreign companies.
■ Market opening is closely associated with the emergence of regional economic integration blocs, a key dimension of market globalization.

B. Market liberalization and adoption of free markets.
■ The Berlin Wall, built in 1961, separated the communist East Berlin from the democratic West Berlin.
■ The tearing down of the Berlin Wall in 1989, the collapse of the Soviet Union's economy that same year, and China's free-market reforms signaled the end of the 50-year Cold War between communist regimes and democracy.
■ It was the transition from **command economies** to **market-driven economies** that facilitated their membership into the global economy.
■ The East Asian economies, stretching from South Korea to Malaysia and Indonesia, had already embarked upon ambitious **market-based reforms** in the 1980s.
■ India joined this market liberalization trend in 1991.
■ These events opened roughly **one-third** of the world to freer international trade and investment.
■ China, India, and Eastern Europe have become some of the most cost-effective locations for producing goods and services.
■ With privatization of previously state-owned industries, these countries have encouraged economic efficiency and attracted foreign capital into their national economies.

C. Industrialization, economic development, and modernization
■ Industrialization transitions emerging markets- Asia, Latin America, and Eastern Europe- from being **low value-adding** commodity producers, dependent on low-cost labor, to sophisticated competitive producers and exporters of premium products (**higher-value products**) such as electronics, computers, and aircraft.
■ **Examples-**
- **Brazil** is now a leading producer of private aircraft
- **Czech Republic** excels in the manufacture of automobiles
- **India** has become a leading supplier of computer software

■ **Gross National Income** (GNI) – one of the most important measures of economic development, i.e. standards of living & discretionary income

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■ **Exhibit 2.3** maps the Gross National Income for various countries in $US There is a direct correlation between low-income countries and low levels of market globalization, e.g. **Africa, India, Nicaragua**.
■ The adoption of modern technologies, improvement of living standards, and adoption of modern legal and banking practices are increasing the attractiveness of emerging markets as investment targets and facilitating the spread of ideas, products, and services across the globe.

D. Integration of world financial markets.
■ Integration of world financial markets enables internationally active firms to raise capital, borrow funds, and engage in foreign currency transactions.
■ Cross-border transactions are made easier partly as a result of the ease with which funds can be transferred between buyers and sellers through a network of international commercial banks.
■ The globalization of finance enables firms to pay suppliers and collect payments from customers worldwide.

E. Advances in technology.
■ Technological advances in communications, information, manufacturing, and transportation have served as a remarkable facilitator of cross-border trade and investment.

2-12. What is the role of the World Trade Organization?
(LO 2.1; AACSB: Application of knowledge)

■ The World Trade Organization (WTO) is a multilateral governing body empowered to regulate international trade and investment.
■ The 149 members states in the WTO have been engaged in an ongoing liberalization of their economies since the late 1940s.
■ Joining the WTO in 2001, even China has committed to make its market more accessible to foreign companies.

2-13. In what areas have technological advances had their greatest effect on facilitating world trade and investment?
(LO 2.3; AACSB: Application of knowledge)

Technology has revolutionized business:
■ Transformed national economies and promoted outsourcing/offshoring.
■ Information technology allows for more efficient adaptation to international markets as well as producing smaller lot sizes to target niche markets.
■ Emerging markets (*technological leapfrogging*) and consumers (reduced prices and greater selection) are the beneficiaries.
■ Technological advances have spurred the development of new products and services that appeal to a global audience, e.g. Walkman, PlayStation 3, and PDAs.
■ China and India are the new beachheads of technological advances.

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■ Spurred **innovation**- Societies and organizations innovate in various ways, including new product designs, new production processes, new approaches to marketing, and new ways of organizing or training.
■ Among the industries most dependent on technological innovation are biotechnology, information technology, new materials, pharmaceuticals, robotics, medical equipment and devices, lasers and fiber optics, and various electronics-based industries.
■ The cost of computer processing fell by 30% *per year* during the past two decades, and continues to fall.
■ The remarkable performance of the U.S. economy in the 1990s was due in large part to aggressive integration of IT into firms' value-chain activities, which accounted for 45% of total business investments at the time.
■ IT alters industry structure, changes the rules of competition, and creates new ways to outperform rivals, thus forming the basis for competitive advantage.
■ Smaller firms can leverage IT to design and produce customized products that can be targeted to narrow, cross-national niches.
■ The impact of IT on our daily lives has been profound- cell phones, Google, Yahoo, etc.

2-14. What are the pros and cons of globalization?
(LO 2.5; LO 2.6; AACSB: Reflective thinking)

■ **Positive consequences** of market globalization: Cross-border trade and investment opened the world to innovations and progress while increasing performance standards, currently known as *global benchmarking* or *world class*.
■ **Negative consequences** of market globalization: The transition to an increasingly single, global marketplace poses challenges to individuals, organizations and governments.
■ Poverty is especially notable in Africa, Brazil, China and India where lower-income countries have not been able to integrate with the global economy as rapidly as others.
■ Globalization has created countless new jobs and opportunities around the world, but it has also cost many people their jobs.
■ **Examples-** Ford, General Motors, and Volkswagen all have transferred thousands of jobs from their factories in Germany to countries in Eastern Europe.
■ In recognition of this, the German government relaxed Germany's labor laws to conform to global realities, but not before the lives of tens of thousands of German citizens were disrupted.
■ GM and Ford have also laid off thousands of workers in the U.S., partly the result of competitive pressures posed by Japanese, Korean, and European carmakers.
■ These trends reflect shifting realities in the global economy.

✪ 2-15. What effect does globalization have on national sovereignty, employment, the poor, the natural environment, and national culture?
Visit MyManagementLab for suggested answers.
(LO 2.6; AACSB: Reflective thinking)

✪ 2-16. What are the implications of globalization for company internationalization?
Visit MyManagementLab for suggested answers.
(LO 2.5; AACSB: Reflective thinking)

● APPLY YOUR UNDERSTANDING

2-17. Imagine you are studying for your international business class at a local coffee shop. The manager spies your textbook and remarks: "I don't get all that foreign business stuff. I don't pay much attention to it. I'm a local guy running a small business. Thank goodness I don't have to worry about any of that." The manager's comments make you think. The manager's comments make you realize there is much more to business than just local concerns. What is the likely value chain of a coffee shop? For example, how did the varieties of coffee beans get there? What is the likely effect of globalization on coffee shops? Do technological advances play any role in the shop's value chain? Does globalization imply any negative consequences for the worldwide coffee industry? Justify your answer.
(LO 2.4; AACSB: Analytical Thinking)

SKUBRATS is a vertically-integrated coffee shop, owning both the upstream and downstream activities.
■ Upstream activities = Research and development, procurement, and manufacturing.
■ Downstream activities = Marketing, distribution, and sales and service.

SKUBRATS Value Chain: Globalization and Technological Effects

Stages in Value Chain	Descriptions
Research & Development ↓	Research on coffee bean varieties: quality, taste, consistency, availability, cost, partnership possibilities, and plantations where pesticide regulations are strictly enforced. Research on sourcing the value chain from global locations that offer the most efficient and highest quality factors of production.
Procurement (Sourcing) ↓	Skubrats, our coffee shop, will seek low-cost and high quality inputs along with favorable relationships with foreign suppliers by shifting the procurement and harvesting of coffee beans to other countries. Thus, Skubrats

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	sources the purchase, growth and harvesting of its coffee beans to Colombia, Brazil, Mexico Indonesia, and any other countries with comparative advantages in the coffee industry.
Manufacturing ↓	Skubrats set up coffee roasting/production facilities abroad through direct investment. For example, manufacturing facilities were set up at costs that were a fraction of what they would have been in the U.S. Also labor is more economically efficient in such South- and Central American countries.
Marketing ↓	Skubrats serves domestic and foreign customers in their own markets. Employing a global strategy, Skubrats benefits from global economies of scale- in both manufacturing and marketing. Earning and employment of the Transfair Social-Justice label to underscore Skubrats' strong commitment to community health/education, fair prices, fair wages, chemical avoidance, sustainable development, local ecosystems and natural resources conservation.
Distribution ↓	Skubrats owns their distributors. In the foreign markets, they have established partnerships with independent distributors; in their domestic market, they own their distribution center and delivery trucks. The reason for this is control over quality and cost.
Sales & Service	Each Skubrats Coffee Shop is company-owned to ensure consistency of product and service. Commensurate with their global strategy, pricing is consistent worldwide. A premium price is demanded, in line with Skubrats top-quality coffee beans and resulting coffee. For their target market of conscientious coffee drinkers, their Transfair Social-Justice label is key. Customer feedback is always welcome either directly or indirectly via feedback cards.

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What is the likely effect of market globalization on coffee shops?

■Globalization affects coffee shops in much the same way as other firms might be impacted, i.e. sourcing of the value chain and a global strategy to capitalize upon global efficiencies.

■ Globalization of markets compels companies to pursue cross-border business.

Do technological advances play any role in the shop's value chain?

(a) In the 1970s, a high-yield coffee tree was developed that flourishes in full sunlight, but requires chemical protection from diseases. The issue is the ecological degradation of normally rich habitats for a diversity of species, including beneficial micro-organisms, in order to provide full sun, pesticides and fertilizers for the *technified* coffee farms. Where typically 140 bird species thrived, only five or six species remain in full-sun fields. Coffee industrialization has dramatically changed the balance of nature.

(b) The insecticide Miral 500 CS was recalled in the mid-1990s by Ciba-Geigy following the death of a Colombian coffee plantation worker. Earlier in 1993 and 1994, in Colombia, the insecticide endosulfan resulted in over 100 poisonings and four deaths. Human health is threatened when pesticide regulations are nonexistent or not enforced.

(c) Awareness through technology, e.g. Consumers International joined the producers of *Black Gold,* a feature-length documentary about the plight of Ethiopian coffee. Without 24/7 media coverage, the world would not even know that there are issues in the coffee industry to be aware of.

(d) The International Coffee Organization (ICO) The International Coffee Organization (ICO), based in London, England info@ico.org (a) 77 member countries, and is the main intergovernmental organization for coffee, bringing together producing and consuming countries- maintains a *Positively Coffee* website (Internet) to disseminate the benefits of drinking coffee. Such promotions contribute to the fact that we remain a caffeinated people: Almost 50% of Americans are coffee drinkers, consuming 20% of the total world coffee.

Does globalization imply any negative consequences for the worldwide coffee industry?

(a) Ecological degradation due to *technified* coffee farms.

(b) Human death/disease from insecticides

(c) Green Labels for Conscientious Coffee Drinkers

(1) Organic Crop Improvement Association, Farm Verified Organic, Naturland, or the Demeter Association

(2) *Fair Trade* or *Social Justice* coffee- Transfair Social-Justice label

(a)These focus on community health and education, fair prices, fair wages, chemical avoidance, commitment to sustainable development, respect for local ecosystems and natural resources conservation.

(b) Grower members are guaranteed a premium price

(c) Newer labels- *Eco-OK* certifying sustainability (shade protection, wildlife conservation & water pollution prevention) by the Rainforest Alliance and Conservation International.

(d) Interestingly, Starbucks initiated this movement in 1995 under pressure from the U.S. Guatemala Labor Education Project concerning the low wages and brutal

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working conditions on their Guatemalan farms. While Starbucks inaugurated a labor code stipulating improved quality for coffee growers, some consider Starbucks to be in non-compliance with their own initiative.

2-18. Globalization provides numerous advantages to businesses and consumers around the world. At the same time, some critics believe that globalization is harming various aspects of life and commerce. In what ways is globalization good for firms and consumers? In what ways is globalization harmful to firms and consumers?
(LO 2.5; LO 2.6; AACSB: Analytical Thinking)

Globalization- PROS

■ **Positive consequences** of market globalization: Cross-border trade and investment opened the world to innovations and progress while increasing performance standards, currently known as *global benchmarking* or *world class*.
■ Globalization is the heightened ability of a firm to internationalize its *value chain* (reconfigure key value-adding activities), leading to greater international integration and cost efficiencies.
■ Advantages of offshoring:

(1) Achieve economies of scale by centralizing production fewer locations around the world;
(2) Move production and sourcing to countries with low-cost labor; and
(3) Access specialist knowledge by contracting with outside suppliers in particular industries.

■ Those facing intense competition, shrinking profit margins, and unfavorable industry trends, may achieve corporate survival through offshoring.
■ Countries which liberalize international trade and investment enjoy faster per capita economic growth.
■ Emerging markets (*technological leapfrogging*) and consumers (reduced prices and greater selection) are the beneficiaries.
■ Knowledge work can be developed worldwide, and will locate where maximum factor advantages accrue to the firm.
■ Free trade and global sourcing benefit consumers worldwide to receive maximum quality at minimum price.
■ Both producer and consumer nations can increase their wealth and quality of life
■ Provide better-paying jobs, have more profits, pay higher taxes, and stimulate local economy.
■ Create new jobs, enhance local living standards, and challenge firms to stay competitive in a challenging global marketplace.
■ Pay higher wages and provide better benefits than domestic-only firms.
■ Since the 1980s, the proportion of world population living in poverty has declined, with much of this improvement attributable to increases in world trade, entrepreneurship, and globalization.
■ Need access to foreign markets in order to recoup their return on investment, especially firms heavily invested in R&D, e.g. those in the pharmaceutical industry.

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■ Increase living standards and decrease illiteracy rates worldwide
■ A good economy and a clean environment are not mutually exclusive. The more affluent people are, the more they will care about their environment and pass laws to protect it.
■ Underscores the importance of being good global citizens- **Motorola** has profited from its business in China, but it has also contributed to the development of educational systems in that country. **Bill Gates** is going to do more than any government to get people computers and get them hooked up on the Internet. He has created the largest fund to combat Malaria. He and **Warren Buffett** are tackling Aids. **SmithKline Beecham** is working with the World Health Organization to find a cure for Elephantiasis.
■ Over time, governments pass legislation that promotes improved environmental conditions.
■ **Example-** Japan endured polluted rivers and smoggy cities in the early decades of its economic development following World War II. As Japan's economy grew, the Japanese passed tough environmental standards, aimed at restoring natural environments.

Globalization- CONS

■ **Negative consequences** of market globalization: The transition to an increasingly single, global marketplace poses challenges to individuals, organizations, and governments.
■ Commensurate with the increase in the standard of living and influx of workers, comes congestion, pollution, high rents, a raucous nightlife, and Western values.
■ Globalization has created countless new jobs and opportunities around the world, but it has also cost many people their jobs.
■ **Examples-** Ford, General Motors, and Volkswagen all have transferred thousands of jobs from their factories in Germany to countries in Eastern Europe.
■ In recognition of this, the German government relaxed Germany's labor laws to conform to global realities, but not before the lives of tens of thousands of German citizens were disrupted.
■ GM and Ford have also laid off thousands of workers in the U.S., partly the result of competitive pressures posed by Japanese, Korean, and European carmakers.

UNINTENDED CONSEQUENCES OF GLOBALIZATION

Contagion: Rapid Spread of Monetary or Financial Crises

■ **2008-** The world economy experienced a severe financial crisis and global recession- the worst in decades.
■ In international economics, **contagion** refers to the tendency for a financial or monetary crisis in one country to spread rapidly to other countries, due to the ongoing integration of national economies.
■ **Catalyst-** Although the crisis began in the U.S., national economies and banking systems had been integrated through **technology**, so the contagion spread quickly around the globe.

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■ The financial crisis struck at the core issues of globalization and raised questions about its merits.
■ **Exhibit 2.8** illustrates how GDP growth in advanced, developing, and emerging economies varies over time. It declined substantially in recent years, due to the global recession and the financial crisis.
■ **Historical Learning Point-** even following deep recessions, the global economy has always returned to net GDP growth.
■ Consumer confidence dwindled, triggering substantial declines in spending on cars, consumer electronics, home appliances, luxury goods, gasoline, bank loans, and new homes.
■ Spending decreased, impacting global commerce. Trade slowed or flattened in consumer durables, energy, financial services, new construction, and related industries.
■ **2009-10-** Global growth declined sharply to levels not seen since World War II.
■ Canada and Mexico slipped into recession partly due to their heavy reliance on trade and investment with the United States.
■ Hong Kong, Japan, Iceland, New Zealand, Singapore, Turkey, the U.S., and most countries in the European Union all experienced significant recessions.
■ Of the largest world economies, only **China**'s continued to grow at a fast rate, over **6%** per year.
■ Advanced economies were significantly affected, emerging markets and developing economies were more resilient than in previous global downturns, although growth in these countries has slowed considerably.
■ **Global Interconnectedness**- Living standards have been severely affected and millions of people worldwide have fallen into severe poverty. This occurred largely because developing economies depend on exports to, and direct investments from, the advanced economies that have all been hurt by the crisis.

Loss of National Sovereignty

■ *Sovereignty* is the ability of a nation to govern its own affairs.
■ One country's laws cannot be applied or enforced in another country.
■ Globalization can threaten national sovereignty.
■ MNE activities can interfere with the sovereign ability of governments to control their own economies, social structures, and political systems.
■ Some corporations are bigger than the economies of many nations, e.g. Walmart's total revenue is larger than the GDP of most nations, including Israel, Greece, and Poland.
■ Large market nationals can exert considerable influence on governments through lobbying or campaign contributions, e.g. for the devaluation of the home currency which would give them greater price competitiveness in export markets.
■ Some argue that gradual integration of the global economy and increased global competition combined with privatization of industries in various nations are making companies ***less powerful***, for example Ford, Chrysler, and General Motors once completely dominated the U.S. auto market. Today many more firms compete in the U.S., including Toyota, Honda, Hyundai, Kia, Nissan, and BMW.

Employment- Offshoring and the Flight of Jobs

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■ ***Offshoring*** is the relocation of manufacturing and other value-chain activities to cost-effective destinations abroad.
■ Examples- Ernst & Young has much of its support work done by accountants in the Philippines. Massachusetts General Hospital has its CT scans and X-rays interpreted by radiologists in India. Many IT support services for customers in Germany are based in the Czech Republic and Romania.
■ Offshoring has resulted in **job losses** in many mature economies with relatively high wages.
■ Countries with low cost inputs and more favorable business environments clearly benefit from offshoring, e.g. China, India, Mexico, Brazil, and Poland.

Effect on the Poor

■ In poor countries, globalization creates jobs and tends to raise wages, yet may also result in job losses as automation is implemented for labor-intensive jobs, e.g. in India the hand-woven textiles industry will soon replace the millions of people employed with an increasing use of machinery.
■ Multinational firms are often criticized for paying low wages, exploiting workers, and employing child labor.
■ Child labor is particularly troubling because it denies children educational opportunities that would contribute to their future development.
■ **Example-** Nike has been criticized for paying low wages to shoe factory workers in Asia, some of whom work in sweatshop conditions.
■ Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
■ Critics insist that such workers be given a "decent wage", yet legislation to increase minimum wage levels can also reduce the number of available jobs.
■ While the output per capita has substantially risen over the past several decades, the **distribution of income** among countries has become more unequal than at the beginning of the century.
■ Poverty is especially notable in Africa, and populous nations such as India, Brazil and China.
■ The unintended consequences of globalization place greater responsibility on governments to ensure that the fruits of economic progress are shared fairly, and all citizens have access to improved welfare, living standards, and higher-value-adding, higher-paying jobs.

Effect on the Natural Environment

■ Some argue that globalization harms the environment by promoting increased manufacturing and other business activities that result in **pollution, habitat destruction, and deterioration of the ozone.**
■ Example- China is attracting much inward FDI and stimulating the growth of numerous industries, which results in new factories whose activities spoil previously pristine environments; also, growing industrial demand for electricity led to construction of the **Three Gorges Dam**, which flooded agricultural lands, displaced one-million inhabitants and permanently altered the natural landscape in Eastern China.

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■ Globalization-induced industrialization produces considerable environmental harm; however, this harm diminishes over time.

Effect on National Culture

■ Globalization opens the door to foreign companies, global brands, unfamiliar products, and new values.
■ In the business sector, firms employ similar technologies and production methods worldwide, leading to more uniform operating methods and outputs.
■ Critics call these trends the "McDonalds-ization" or the "Coca-Colonization" of the world, referring to a type of cultural colonization.
■ Governments try to block "**cultural imperialism**" and prevent the erosion of local traditions.
■ In France, Canada, and Belgium, laws were passed to protect national language and culture.
■ Global media have a pervasive effect on local culture, gradually shifting it toward a universal norm.
■ **Cultural imperialism** is offset by the opposite trend of **nationalism**.

2-19. Ethical Dilemma:

Northern Energy, Inc. (Northern) is a large oil company with production and marketing operations worldwide. You are a recently hired manager at Northern's subsidiary in Nigeria, which provides jobs to hundreds of Nigerians and supports many local merchants and suppliers. Suppose Northern's drilling and refining practices have severely damaged the natural environment in Nigeria, polluting the air, land, and water. As a result, Northern has faced violent protests and much negative publicity in Nigeria. Develop suggestions on how Northern should address these issues. Keep in mind that top management is reluctant to invest significant new resources in Nigeria, given the firm's weakening business performance there.

(LO 2.3; LO 2.4; LO 2.5; LO 2.6; AACSB: Analytical Thinking)

■ The dilemma in this situation is that Northern's business practices are harming the natural environment in Nigeria. The air, land, and water have all been polluted. This has resulted in violent protests against Northern by the Nigerians.

■ The facts are as follows: Top management is reluctant to send additional resources to their Nigerian operations. Northern Energy is responsible for the pollution. The local stakeholders are not happy with Northern Energy.

■ There are two courses of action: First, is to pull out all operations in Nigeria and then work with the local government to clean up the mess Northern created. This would mean incurring the losses associated with closing down the factories and laying off the workers. However, the air, land and water pollution would be mitigated as Northern would cease its Nigerian operations.

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■ The second option is to formulate and implement sustainability goals commensurate with good corporate citizenship. Such a socially responsible restructuring of Northern's business practices would mitigate the pollution, cast Northern in a more favorable light, and most likely raise the cost of doing business. A cost-benefit analysis might be a prudent next step in the due diligence process.

■ The first option is the easier of the two. It pulls Northern out of the area and halts the pollution. However, this decision does not really fall under any of the ethical approaches. Northern would exit Nigeria, not attending to the already created pollution.

■ The second option is the best solution from the Nigerian perspective, but the most challenging for Northern. Not only would Northern be completely changing its corporate profile, to one representing corporate social responsibility, but the opportunity also exists for turning a weak business situation into a strong one in terms of profitability. It is not only utilitarian, as Northern would be helping themselves and the Nigerians, but it would also benefit the common good of the community.

■ Instituting both economic and social goals would translate into improving both the environment and Northern's performance. Some would argue that Northern has taken advantage of the Nigerians and encroached upon their rights to a clean environment. The opportunity presents itself to turn this around. Northern should initiate the search for newer, cleaner, and more socially responsible business practices with regard to the Nigeria situation. Perhaps clean energy or alternative energy sources might be explored by Northern. Partnerships with other firms who have already initiated the exploration for cleaner energy might be a good strategy.

■ For example, ask students to look up Sasol Limited (http://www.sasol.com) and their proprietary technology implemented in South Africa and other sub-Saharan nations.

• GlobalEDGE™ INTERNET EXERCISES http://globaledge.msu.edu

2-20. The KOF Swiss Economic Institute prepares the annual *KOF Index of Globalization*, which ranks the most globalized countries (enter "KOF Index of Globalization" at globalEDGE™ or other search engine). The index uses three different dimensions to measure globalization: *economic globalization*, *political globalization,* and *social globalization.* Visit the index and explain what each dimension represents, and why each is important for a nation to achieve a substantial presence in the global economy.
(LO 2.3; LO 2.4; LO 2.5; LO 2.6; AACSB: Analytical Thinking)

- The KOF Index of Globalization uses three dimensions to measure globalization: economic globalization, political globalization, and social globalization.
- Each of the three dimensions is determined using sub-indices.

- **Economic globalization is determined by the following sub-indices:**

- Actual Flows
  - Foreign Direct Investment, stocks
  - Income Payments to Foreign Nationals
  - Portfolio Investment
  - Trade
- Restrictions
  - Mean Tariff Rate
  - Taxes on International Trade
  - Hidden Import Barriers
  - Capital Account Restrictions

- **Political globalization is determined by the following sub-indices:**
  - Membership in International Organizations
  - International Treaties
  - Embassies in Country
  - Participation in U.N. Security Council Missions

- **Social globalization is determined by the following sub-indices:**
  - Data on Personal Contact
    - International Tourism
    - Telephone Traffic
    - International Letters
    - Foreign Population
    - Transfers
  - Data on Information Flows
    - Television
    - Internet Users
    - Trade in Newspapers
  - Data on Cultural Proximity
    - Number of Ikea Retail Stores
    - Number of McDonald's Restaurants
    - Trade in Books

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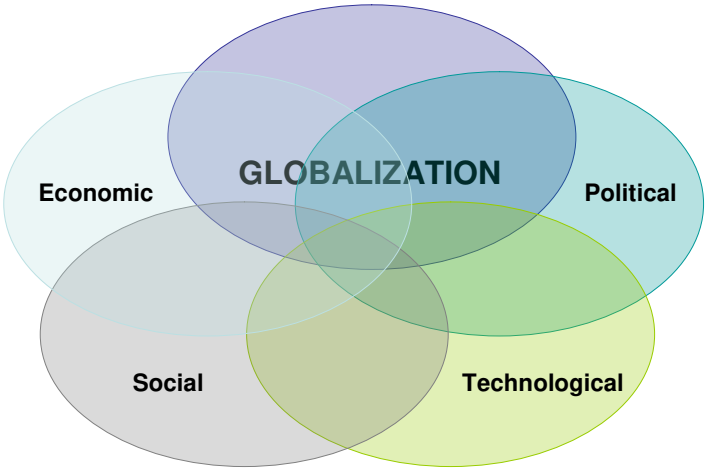

Although the index uses three dimensions for globalization- economic, political and social- a fourth dimension should also be considered, that of technological, which integrates the world through technology, primarily, the Internet.

Technological Integration
Information and communication technology (ICT) continues to spread the globe as more and more countries enlarge their ICT infrastructures. Internet connections are a powerful accelerator of globalization. As countries see the value of access to information and the burgeoning of knowledge-driven economic activities, they are achieving greater ICT integration as Internet use and access throughout the world continue to expand rapidly. The total number of Internet users worldwide near hovers near one billion. The trend to Internet usage continues to grow. The primary driving force behind Internet use and access is the growth occurring in developing economies. The rapid expansion in ICT adoption and consumer demand for Internet access is fueled by declining costs of connectivity and personal computers, which is augmented by high population growth and a growing proportion of savvy young people.

Each of the four components is important for a nation to achieve a substantial presence in the global economy. The components are interconnected, integrated, and impacted by the other three.

- Countries, particularly emerging and developing ones, cannot afford to bypass the economic gains by refusing to participate in world economic integration or setting up trade and investment barriers to lessen the positive impact of globalization.

- Emerging markets continue to politically organize or reorganize as regional partners to enhance economic growth.

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- More countries are becoming members of international organizations such as the WTO and financial and personnel contributions to peacekeeping organizations such as the United Nations continue to rise as new countries see the value of globally assisting others in times of need.

- Globalization allows firms and consumers to view the world as one large marketplace - it is important for nations to achieve a presence in the global economy in order to compete in that marketplace and to overcome conditions of poverty.

2-21. Service-sector jobs are increasingly outsourced to lower-cost locations abroad. The globalEDGE™ web site has various resources that detail the nature and location of jobs that have been transferred abroad. Some experts believe the resulting foreign investment and increased demand in lower-cost countries will cause wages to rise in those countries, eliminating cost advantages from offshoring and narrowing the income gap between developed economies and low-cost countries. In other words, offshoring will help to reduce global poverty. Others believe that manufacturing jobs will be consistently moved to low-cost countries, making China and India the world's center of innovation and production. What do you think? Find three articles on outsourcing at globalEDGE™ by doing a search using the keywords "global outsourcing" or "offshoring," and write a report on the most likely consequences of these trends for your country, its workers, and consumers.
(LO 2.3; LO 2.4; LO 2.5; LO 2.6; AACSB: Analytical Thinking)

Consequences of offshore outsourcing for country, workers and consumers
Offshore outsourcing effects at the country level. At the macroeconomic level, there are benefits and costs to offshore outsourcing. My country is doing much offshoring because of the higher costs associated with its manufacturing and service sectors. Even though its transportation, information, telecommunication, and energy infrastructures are excellent and political instability, bureaucracy and corruption are low; global costs disadvantages for businesses renders it somewhat unattractive for offshore outsourcing inflows. Information technology, website design, software development, backroom operation, call-center, product design (development), research and development services are being 'farmed out' at a rapid pace. My country's economy can benefit from global outsourcing. For example, the study reveals that home-country companies saved close to US$11 billion by outsourcing to India, and India, in turn, bought approximately US$3 billion in high-technology imports from us during the same period. Thus if firms in my country can reduce their cost structure, the entire economy here gains.

Offshore outsourcing effects at the workers' level.
Companies that are or planning to participate in global outsourcing are reducing employment opportunities for local workers in the blue-collar and white-collar areas. However, as companies insatiable search for lower cost, high productivity, greater

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efficiency and customer service continues, high-skilled, white-collar employment (e.g., computer programming, software development, website design, product design, information technology) have joined the race. As information technology (IT) employees, in particular, witness their jobs moving offshore in a bad economy, opposition to globalization could resurface stronger than ever. Thus many observers feel that outsourcing claims jobs, suppresses wages, and hurts local innovation. If innovation tends to follow jobs, key drivers of local economic prosperity could vanish. By contrast, executives believe the global outsourcing makes their firms more competitive. By shifting product design work and other related work offshore, for example, production can often remain in this country. Offshoring might be seen as a contributor to corporate growth, as a facilitator of better skilled use of home-country staffs, and as a creator of jobs in the long run. Some economists feel that the 'reabsorption effect' (i.e., displaced workers are reabsorbed into other areas of the economy) as a result of global competition is good for the local economy ultimately. Higher per worker productivity can lead to greater corporate profits and higher average salaries.

Offshore outsourcing effects at the consumers' level.
As firms in my country increase their global competitiveness via lower costs, greater efficiency, productivity, quality, better service and revenues, conceivably, local consumers will experience lower prices for products and services that benefited from offshore outsourcing. For example, Nike and Levi Strauss have outsourced their production value-chain activities to offshore companies for their sport shoes and apparel for many years. Conceivably, this has allowed them to keep the cost of these goods lower than otherwise would be possible.

2-22. A key characteristic of globalization is the increasingly integrated world economy. MNEs and many nations have a vested interest in maintaining the globalization trend. If the trend were somehow reversed, participants in international business, such as exporters, would likely suffer big economic losses. In many ways, globalization's role in the world economy is critical. But just how big is the global economy? What is the extent of international trade relative to the size of the global economy? What is the proportion of international trade in the GDPs of each of the following countries: Australia, Canada, Sweden, United Kingdom, and the United States? Consult globalEDGE™ to address these questions.
(LO 2.4; AACSB: Analytical Thinking)

Globalization refers to the gradual integration and growing interdependence of national economies. Globalization allows firms to view the world as an integrated marketplace that includes buyers, producers, suppliers, and governments in different countries. Globalization is manifested by the production and marketing of branded products and services worldwide. Declining trade barriers and the ease with which international business transactions take place due to the Internet and other technologies are contributing to a gradual integration of most national economies into a unified global marketplace.

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The globalization of markets is evident in several related trends. First is the unprecedented growth of international trade. In 1960, cross-border trade was modest—about $100 billion per year. Today, it accounts for a substantial proportion of the world economy, amounting to some $18 trillion annually—that is, $18,000,000,000,000! Second, trade between nations is accompanied by substantial flows of capital, technology, and knowledge. Third is the development of highly sophisticated global financial systems and mechanisms that facilitate the cross-border flow of products, money, technology, and knowledge. Fourth, globalization has brought about a greater degree of collaboration among nations through multilateral regulatory agencies such as the World Trade Organization (WTO; www.wto.org) and the International Monetary Fund (IMF; www.imf.org).

Export growth has outpaced the growth of domestic production during the last few decades, illustrating the fast pace of globalization. Much of the difference in the growth of exports versus GDP is due to advanced (or developed) economies such as Britain and the United States now sourcing many of the products they consume from low-cost manufacturing locations such as China and Mexico. For example, although the United States once produced most of the products it consumed, today it depends much more on imports. Rapid integration of world economies is fueled by such factors as advances in information and transportation technologies, decline of trade barriers, liberalization of markets, and the remarkable growth of emerging market economies.

■ During the recent global recession, China surpassed the U.S. as the world's leading exporter in total dollar terms, trade accounts for about **45%** of its GDP (U.S. is 23% of its GDP).

■ For other economies, merchandise trade is a much larger component of economic activity: e.g. Belgium (125%), Netherlands (118%), and South Korea (81%).
Entrepôt economies (*intermediate depot*; exports = imports): Singapore, Hong Kong and Malaysia export more than 100% of their respective GDPs.

Such countries import a large volume of products, some of which they process into higher value-added products and some they simply re-export to other destinations.

In terms of the the proportion of international trade in the GDPs of each of Australia, Canada, Sweden, United Kingdom, and the United States, the data are available from the World Trade Organization (www.wto.org), globalEDGE™, and the CIA World Factbook (www.cia.gov). The World Factbook is the most straightforward source. According to it, recently the GDP and combined exports and imports of Australia were $851 billion and $325 billion, respectively. This implies that trade amounted to about 38% of the country's GDP (325/851).

The GDP and combined exports and imports of Canada were $1.28 trillion and $650 billion, respectively. This implies that trade amounted to about 51% of the country's GDP. The GDP and combined exports and imports of Sweden were $331 billion and

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$252 billion, respectively. This implies that trade amounted to about 76% of the country's GDP. The GDP and combined exports and imports of the United Kingdom were $2,128 trillion and $843 billion, respectively. This implies that trade amounted to about 40% of the country's GDP. The GDP and combined exports and imports of the United States were $14.14 trillion and $2.61 trillion, respectively. This implies that trade amounted to about 18% of the country's GDP.

2-23. Globalization refers to the reduction barriers to trade and investment, which is facilitating the internationalization of countless firms. Globalization is quickening and affecting firms around the world. Globalization is associated with various issues and challenges that confront firms as they undertake international business. Among the major issues are the condition of the global economy; indebtedness of national governments; power shifts to emerging markets; and country risk in the developing economies. Visit globalEDGE™ and enter the key word "globalization". Explore the information and websites that emerge from your search. Write a report on the most important contemporary issues that firms are facing as they undertake international business.
(LO 2.2; AACSB: Reflective thinking)

■ **A globalEDGE™ search yields information on the following issues facing international firms:**

- Global sourcing
- Labor laws
- Global financial crisis
- Lack of education in emerging and developing economies
- Effects of capitalism on national identity
- Poverty
- Energy supply and usage
- Balance between environmental protection and economic development
- International enforcement of human rights
- Sovereignty
- Legal systems of the world
- Challenges to women's rights
- Potential of mass media to mislead public
- Censorship
- Exchange rate
- Ethics
- Finding qualified buyers
- Assessment
- Negative effects of regionalization
- International negotiations
- World religions
- Global branding
- International trade law

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- Logistics and transportation
- Etiquette
- Terrorism
- Competition and cooperation

The most important contemporary issues that firms are facing as they undertake international business: (Results – 20 from a total of 1485)

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MyManagementLab

Go to **MyManagementLab.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- ✪ **2-24. In what areas have technological advances had their greatest effect on facilitating world trade and investment?**
- ✪ **2-25. What are the pros and cons of globalization?**
- ✪ **2-26. MyManagementLab Only– comprehensive writing assignment for this chapter.**

Visit MyManagementLab for suggested answers.

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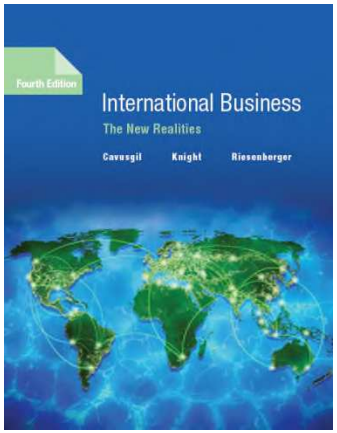
Chapter 2



Globalization of Markets and the Internationalization of the Firm

International Business: The New Realities, 4th Edition

by

Cavusgil, Knight, and Riesenberger

International Business The New Realities 4th edition Cavusgil Solutions Manual

Learning Objectives

2.1 Understand market globalization as an organizing framework.

2.2 Know the drivers of globalization.

2.3 Understand technological advances and globalization.

2.4 Comprehend the dimensions of globalization.

2.5 Appreciate firm-level consequences of market globalization.

2.6 Understand the societal consequences of globalization.

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Overview on Globalization of Markets

- *Globalization* and *technological advances* have altered the international business landscape more than any other trends.
- In this class, *globalization* refers to the interconnectedness of national economies and the growing interdependence of buyers, producers, suppliers, and governments around the world.
- Globalization allows firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge.

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Phases of Globalization

Phase of Globalization	Approximate Period	Triggers	Key Characteristics
First phase	1830 to late 1800s, peaking in 1880	Introduction of railroads and ocean transport	Rise of manufacturing: cross-border trade of commodities, largely by trading companies
Second phase	1900 to 1930	Rise of electricity and steel production	Emergence and dominance of early MNEs (mainly from Europe and North America) in manufacturing, extractive, and agricultural industries
Third phase	1948 to 1970s	Formation of General Agreement on Tariff and Trade (GATT); conclusion of World War II; Marshall Plan to reconstruct Europe	Focus by industrializing Western countries to reduce trade barriers; rise of MNEs from Japan; development of global capital markets; rise of global trade names
Fourth phase	1980s to present	Privatization of state enterprises in transition economies; revolution in information, communication, and transportation technologies; remarkable growth of emerging markets	Rapid growth in cross-border trade of products, services, and capital; rise of internationally active SMEs and services firms; rising prosperity of emerging markets

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The Death of Distance

In This Time Period…	Fastest Transportation Was Via…	At a Speed of…
1500 to 1840s	• Human-powered ships and horse-drawn carriages	10 miles per hour
1850 to 1900	• Steamships • Steam locomotive trains	36 miles per hour 65 miles per hour
Early 1900s to today	• Motor vehicles • Propeller airplanes • Jet aircraft	75 miles per hour 300–400 miles per hour 500–700 miles per hour

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The Drivers of Market Globalization

1. Drivers of Market Globalization

- Worldwide reduction of barriers to trade and investment
- Market liberalization and adoption of free markets
- Industrialization, economic development, and modernization
- Integration of world financial markets.
- Advances in technology

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The Drivers and Dimensions of Market Globalization

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- Market liberalization and adoption of free markets
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

2. Dimensions of Market Globalization

- Integration and interdependence of national economies
- Rise of regional economic integration blocs
- Growth of global investment and financial flows
- Convergence of buyer lifestyles and preferences
- Globalization of production activities
- Globalization of services

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The Drivers, Dimensions, and Consequences of Market Globalization

1. Drivers of Market Globalization
- Worldwide reduction of barriers to trade and investment
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- Globalization of services

3a. Firm-level Consequences of Market Globalization: Internationalization of the Firm's Value Chain
- Countless new business opportunities for internationalizing firms
- New risks and intense rivalry from foreign competitors
- More demanding buyers who source from suppliers worldwide
- Greater emphasis on proactive internationalization
- Internationalization of firm's value chain

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The Drivers, Dimensions, and Consequences of Market Globalization

1. Drivers of Market Globalization
- Worldwide reduction of barriers to trade and investment
- Transition to market-based economies and adoption of free trade in China, former Soviet Union countries, and elsewhere
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

2. Dimensions of Market Globalization
- Integration and interdependence of national economies
- Rise of regional economic integration blocs
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3b. Societal Consequences of Market Globalization
- Contagion: Rapid spread of financial or monetary crises from one country to another
- Loss of national sovereignty
- Offshoring and the flight of jobs
- Effect on the poor
- Effect on the natural environment
- Effect on national culture

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Dimensions of Market Globalization

- ***Integration and interdependence of national economies***. Results from firms' collective international activities. Governments contribute by lowering trade and investment barriers.

- ***Rise of regional economic integration blocs***. Free trade areas are formed by two or more countries to reduce or eliminate barriers to trade and investment, such as the EU, NAFTA, and MERCOSUR.

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Dimensions of Market Globalization (cont'd)

- ***Growth of global investment and financial flows***. Associated with rapid growth in foreign direct investment (FDI), currency trading, and global capital markets.

- ***Convergence of buyer lifestyles and preferences***. Facilitated by global media, which emphasize lifestyles found in the U.S., Europe, or elsewhere. Firms market standardized products.

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Dimensions of Market Globalization (cont'd)

- ***Globalization of production***. To cut costs, firms manufacture in low labor-cost locations such as Mexico and Eastern Europe. Firms also source services from abroad.

- ***Globalization of services***. Banking, hospitality, retailing, and other service industries are rapidly internationalizing. Firms outsource business processes and other services in the value chain to vendors overseas. And, in a new trend, many people go abroad to take advantage of low-cost services.

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Drivers of Market Globalization

- ***Worldwide reduction of barriers to trade and investment***. Over time, national governments have greatly reduced trade and investment barriers. The trend is partly facilitated by the ***World Trade Organization*** (WTO), an organization of some 150 member nations.

- ***Market liberalization and adoption of free markets.*** The launch of free market reforms in China and the former Soviet Union marked the opening of roughly 1/3 of the world to freer trade.

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Drivers of Market Globalization (cont'd)

- ***Industrialization, economic development, and modernization***. These trends transformed many developing economies from producers of low-value to higher-value goods, such as electronics and computers.

  Simultaneously, rising living standards have made such countries more attractive as target markets for sales and investment.

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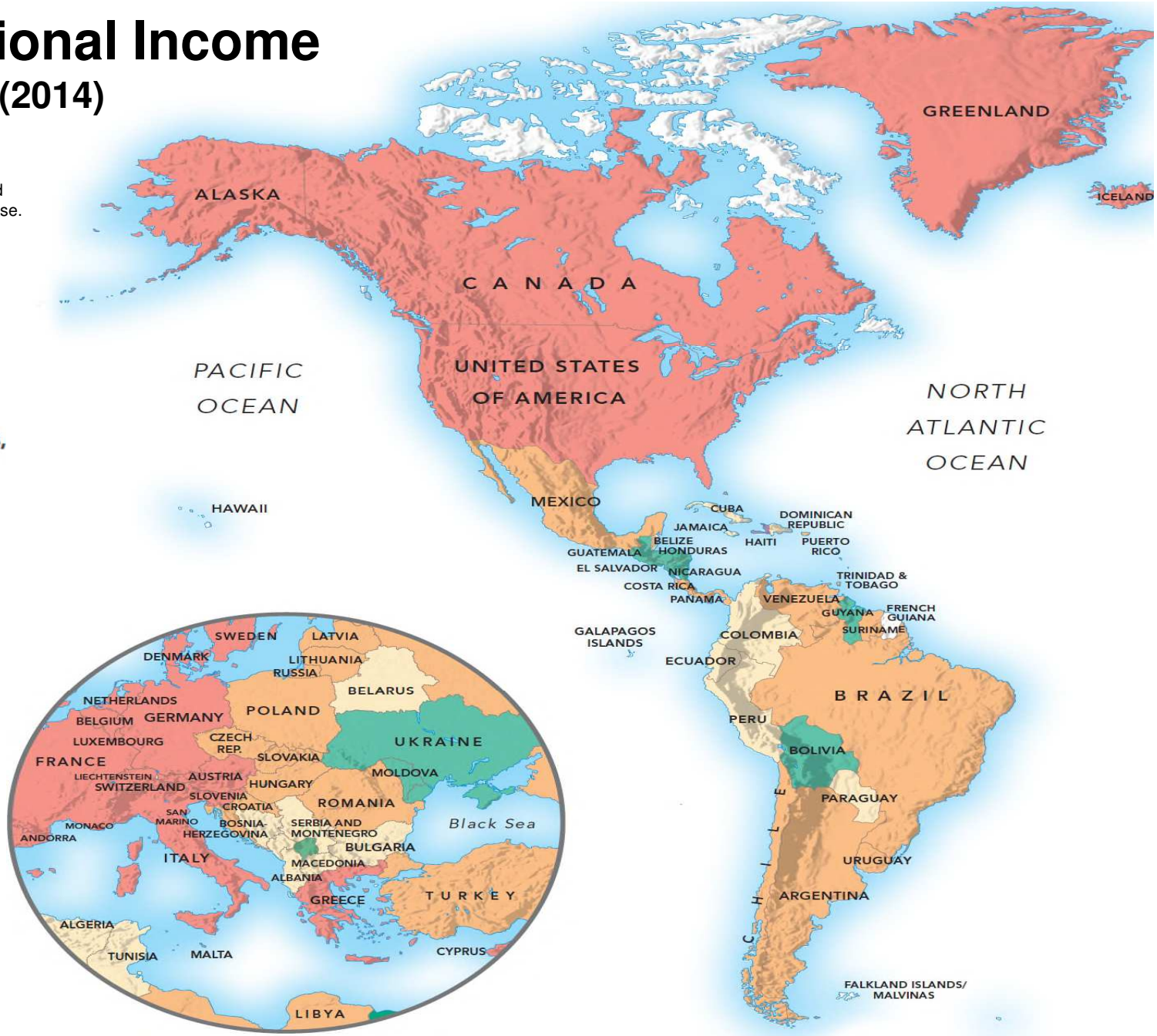
Gross National Income
in U.S. Dollars (2014)

SOURCE: World Bank (2015) World Bank Development Indicator database. http://www.data.worldbank.org.

Numbers are based on the Atlas Methodology of the World Bank, a three-year average of the official exchange rate, adjusted for inflation.

Gross National Income Per Capita, in U.S. Dollars,

- 20,000 or more
- 8,000 – 19,999
- 4,000 – 7,999
- 1,500 – 3,999
- less than 1,500
- No data



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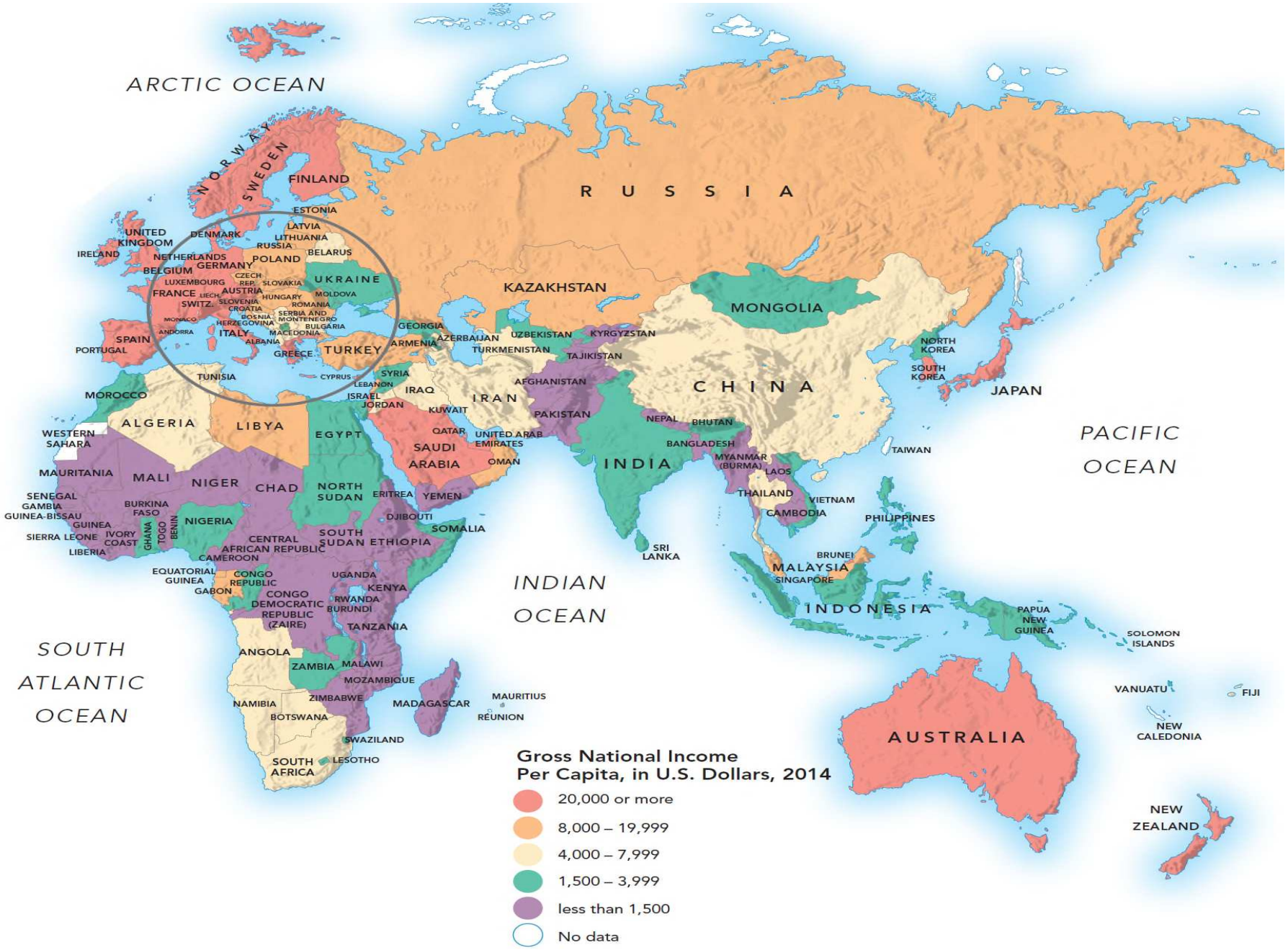

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Drivers of Market Globalization (cont'd)

- ***Integration of world financial markets***. Enables firms to raise capital, borrow funds, and engage in foreign currency transactions wherever they go. Banks now provide a range of services that facilitate global transactions.

Source: Arto/Fotolia

- ***Advances in technology***. Reduces the cost of doing business internationally, by allowing firms to interact cheaply with suppliers, distributors, and customers worldwide. Facilitates the internationalization of companies, including countless small firms.

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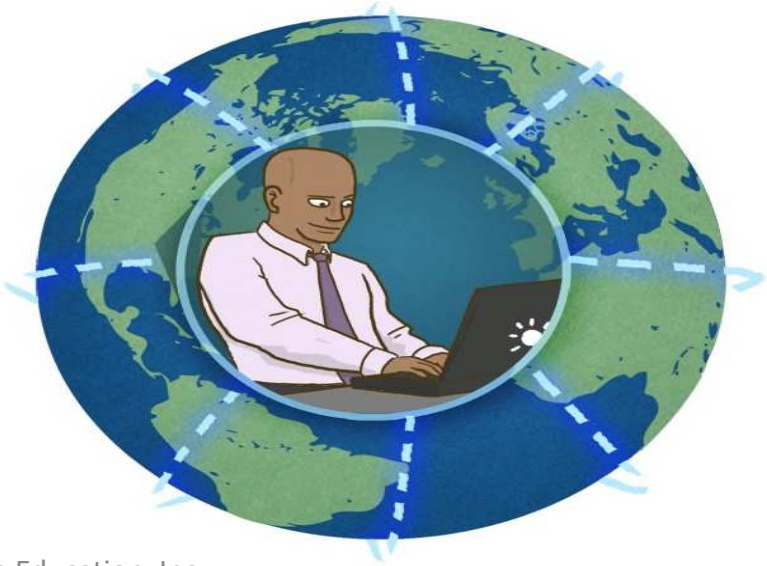
Information and Communications Technology (ICT)

- Profound advances have occurred in computers, digital technologies, telephony, and the Internet.
- MNEs leverage ICTs to optimize their performance, managing operations around the world.
- ICTs opened the global marketplace to firms that historically lacked the resources to internationalize.



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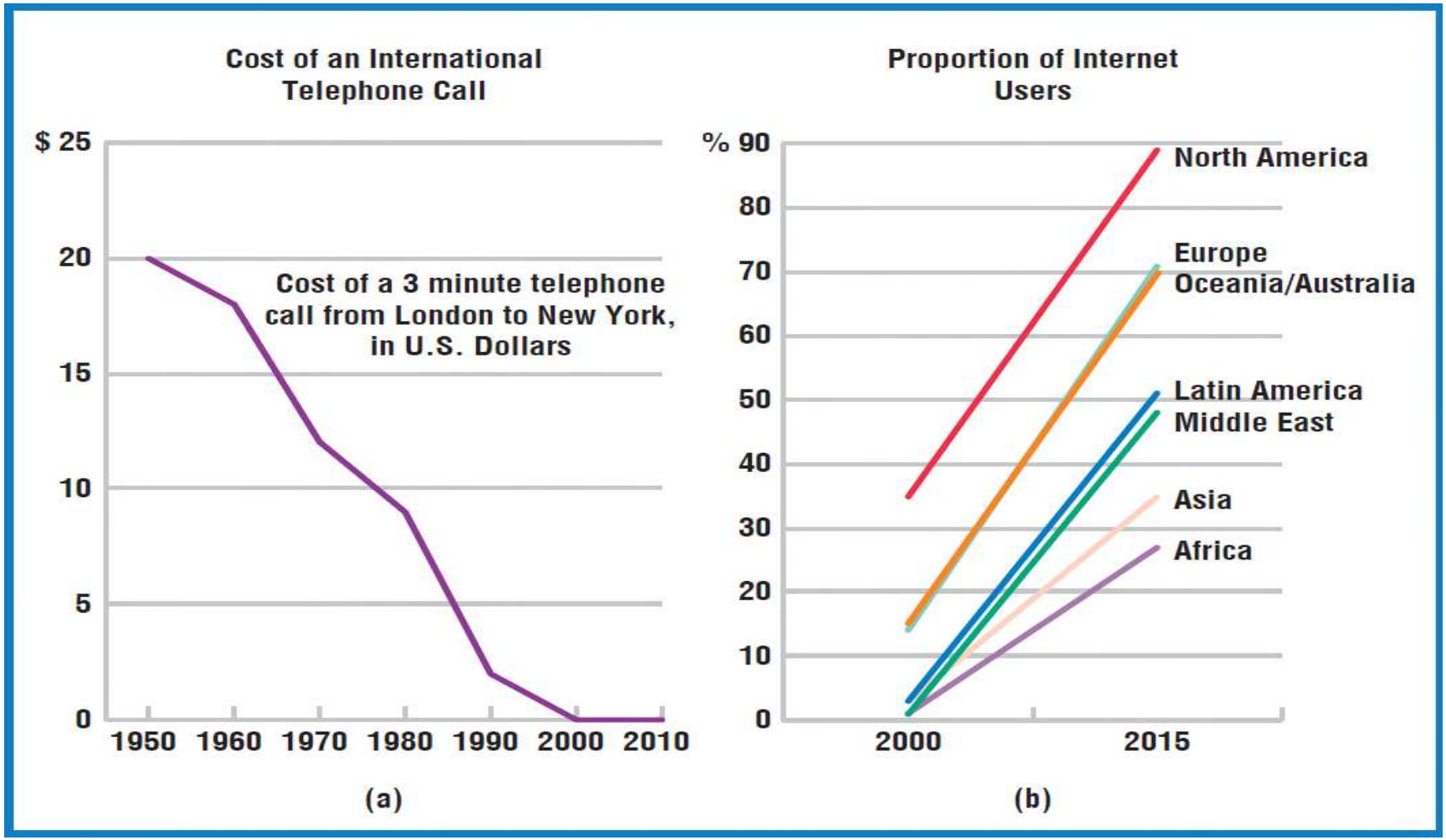
Declining Cost of Global Communication and Growing Number of Internet Users



Sources: IMF, *World Economic Outlook* (Washington, DC: International Monetary Fund, 2015); United Nations International Telecommunications Union, *Statistics Database*, (2015) at www.itu.int; Internet World Stats, *Internet Usage Statistics*, (2015) at www.internetworldstats.com.

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Manufacturing and Transportation Technologies

- Revolutionary developments permit manufacturing that is low-scale *and* low cost, via computer-aided-design of products (CAD), robotics, and IT-managed production lines.
- In transportation, key advances include fuel-efficient jumbo jets, giant ocean-going freighters, and containerized shipping. The cost of international transportation has declined substantially, spurring rapid growth in global trade.
- Collectively, technological advances have greatly reduced the costs of doing business internationally.

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Societal Consequences of Market Globalization

- ***Contagion: Rapid Spread of Monetary or Financial Crises.*** Beginning in late 2008, the world economy experienced a severe financial crisis and global recession, the worst in decades. The crisis emerged when pricing bubbles occurred in housing and commodities markets worldwide. As bubbles in real estate markets burst, home values crashed and many homeowners could not repay their debts. Meanwhile, thousands of mortgages had been securitized, and their values plunged or became uncertain.

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Societal Consequences (cont'd)

- ***Loss of National Sovereignty***. MNE activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Walmart, Shell).

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Societal Consequences (cont'd)

- ***Loss of National Sovereignty***. MNE activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Shell, Walmart).

  However, some argue that global competition in the context of global free trade makes MNEs less powerful (e.g., The US auto industry declined as foreign rivals from Japan and Europe entered the US market. Some day, Walmart may be overtaken by a giant Chinese retailer).

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Societal Consequences (cont'd)

- ***Offshoring and the Flight of Jobs***. Jobs are lost as firms shift production of goods and services abroad, in order to cut costs and obtain other advantages. Firms benefit, communities and industries are disrupted.

- ***Effect on the Poor***. In poor countries, while globalization usually creates jobs and raises wages, it also tends to disrupt local job markets. MNEs may pay low wages, and many exploit workers or employ child labor. Globalization's benefits are not evenly distributed.

<u>Example</u>
Many people in India are losing jobs as the hand-woven textiles industry is being gradually automated.

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Effect on the Poor

Source: Peter Cook/Dorling Kindersley

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Example: Nike's Foreign Factories

- Nike has 100s of factories in Asia, Latin America, and elsewhere.
- Nike has been criticized for paying low wages and operating sweatshop conditions.
- Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
- However, consideration must be given to the other choices available to people in those countries.
- Nike and numerous other MNEs are making efforts to improve working conditions in their foreign plants.

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Growth of World GDP,
Average Annual Percent Change, 2006–2015

Source: International Monetary Fund, World Economic Outlook Database http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx.

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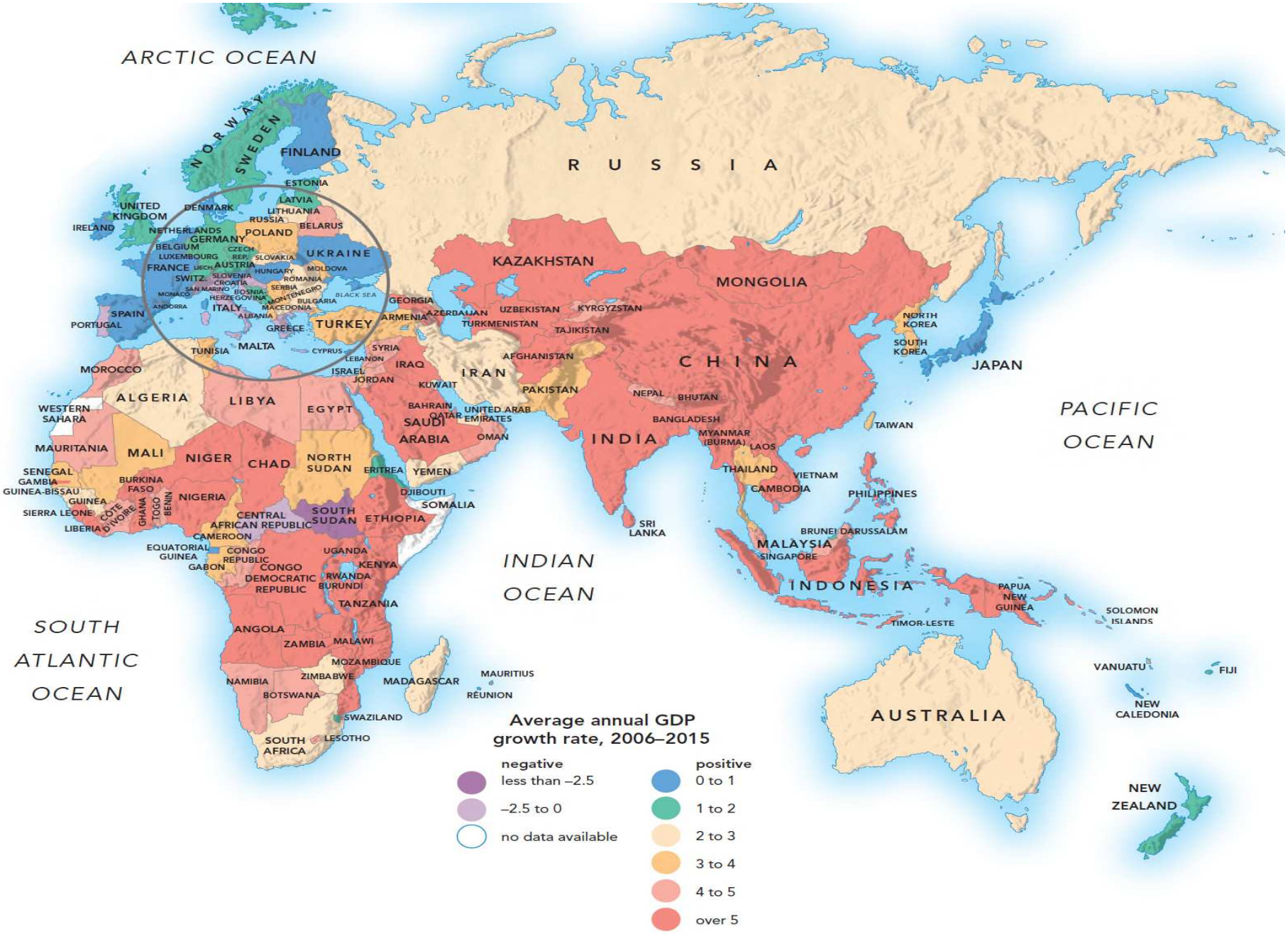

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Societal Consequences of Globalization (cont'd)

- ***Effect on the Natural Environment***. Globalization harms the environment by promoting industrialization and other activities that generate pollution, habitat destruction, and other environmental harm. e.g., As China and India industrialize, air and water pollution have become major hazards.

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Societal Consequences of Globalization (cont'd)

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- *However*, as nations develop their economies, they tend to pass laws that protect the environment. e.g., This happened in Japan from the 1960s to the 1980s. In Mexico, the government is gradually adopting policies to protect the air, water, etc.

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Societal Consequences of Globalization (cont'd)

- ***Effect on National Culture***. Globalization opens the door to foreign firms, global brands, unfamiliar products, and new values. Increasingly, consumers buy similar products, modeled according to Western countries, especially the US. In this way, traditional norms, values, and behaviors may homogenize over time. National identity may be lost to 'global' culture.

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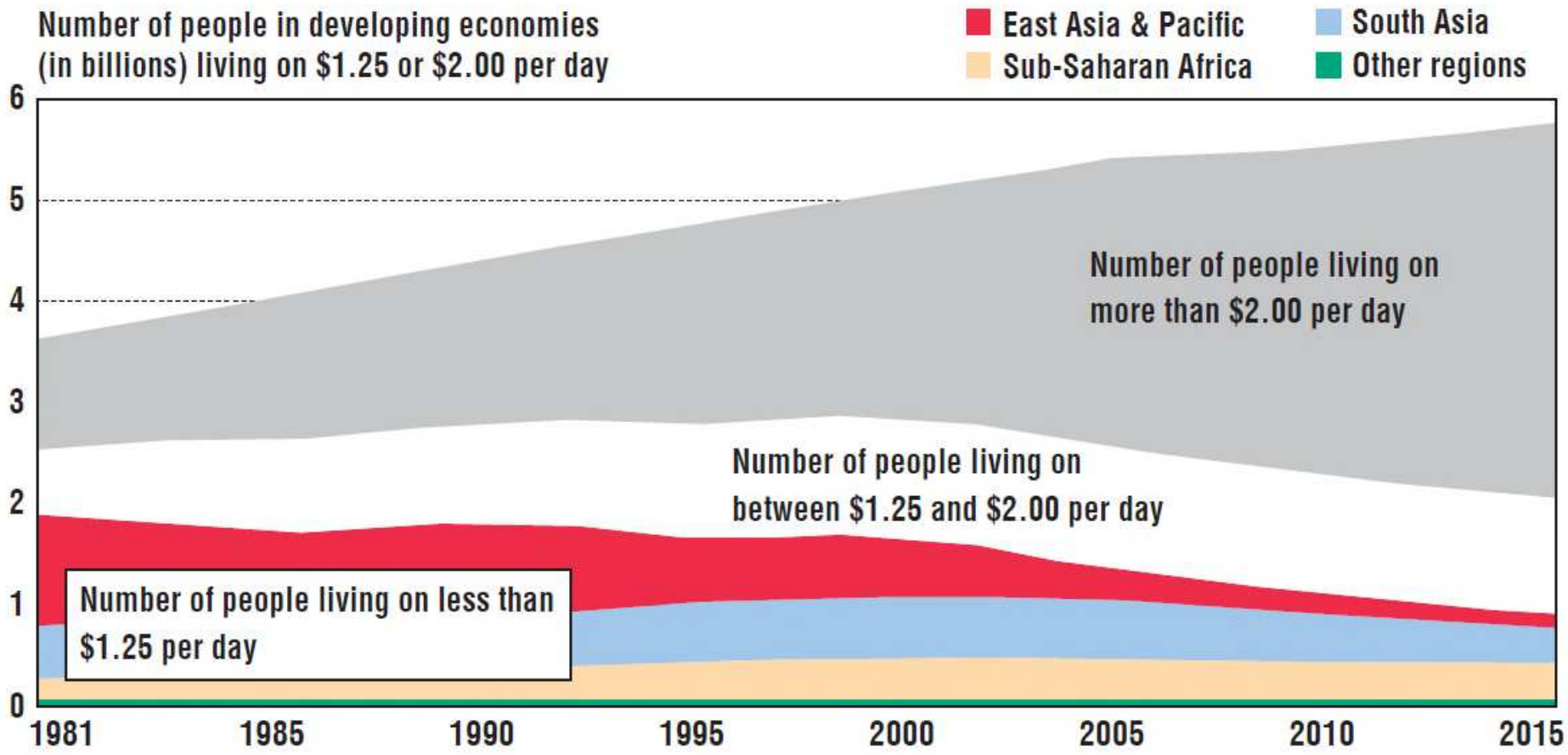
Number of People Living in Poverty
(in Billions)



Sources: L. Chandy, N. Ledlie, and V. Penciakova, *The Final Countdown: Prospects for Ending Extreme Poverty by 2030,* Policy Paper 2013–14 (Washington DC: Brookings Institution); *Economist*, "Poverty's Long Farewell," February 28, 2015, p. 68; World Bank, *World Development Indicators* (Washington, DC: World Bank, 2015).

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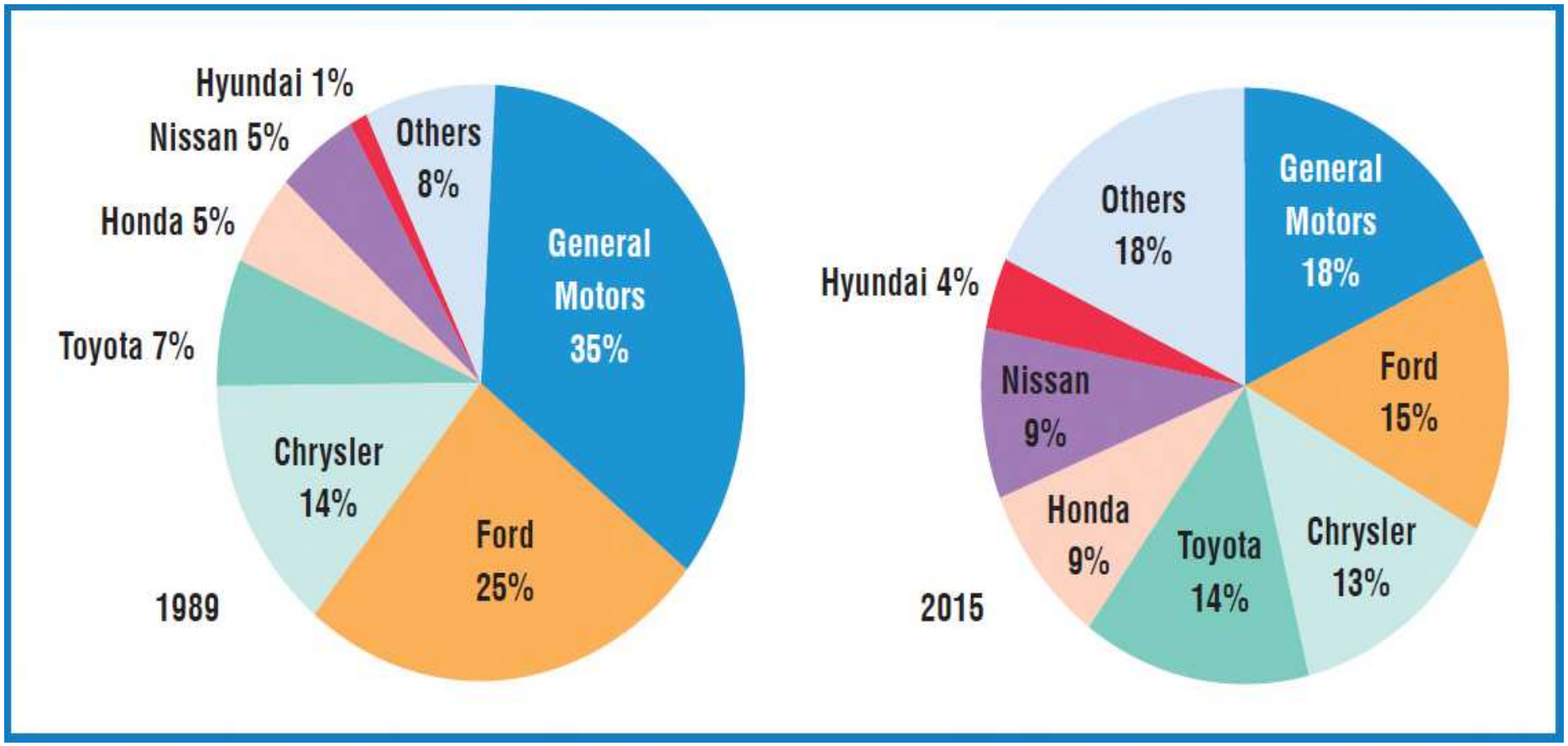
Automaker Market Shares, Light-Vehicle Sales in the U.S, 1989 and 2015



Sources: Based on Craig Trudell, "U.S. Automakers Seen Losing Market Share Amid 2012 Growth: Cars," *Bloomberg BusinessWeek*, February 8, 2012, retrieved from www.businessweek. com; J. Muller, "Automakers Gold Rush," *Forbes*, June 8, 2009, pp. 70–77; *Wall Street Journal*, "Sales and Share of Total Market by Manufacturer," March 3, 2015, retrieved from http://online.wsj.com/mdc/ public/page/2_3022-autosales.html#autosalesE, March 16, 2015.

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Company Internationalization and the Value Chain

- The most significant implication of market globalization for companies is that a purely domestic focus is no longer viable in most cases.
- Market globalization compels firms to internationalize their value chain, and access the benefits of international business.
- **Value chain**: The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.
- Globalization allows the firm to internationalize its *value chain*, leading to various advantages.

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Internationalization of the Firm's Value Chain

Stages in the Firm's Value Chain	Research & Development	Procurement (Sourcing)	Manufacturing	Marketing	Distribution	Sales & Service
Examples	The pharmaceutical firm Pfizer conducts R&D in Singapore, Japan, and other countries to gain access to scientific talent or collaborate with local partner firms.	Office furniture manufacturer Steelcase sources low-cost parts from suppliers in China and Mexico. Dell has business processes such as data entry, call centers, and payroll processing performed in India.	Genzyme Corp. does much of the manufacturing and testing of its surgical and diagnostic products in Germany, Switzerland, and the United Kingdom. Renault produces cars via low-cost factories in eastern Europe.	BMW and Honda locate marketing subsidiaries in the United States to more effectively target their vehicles to the huge U.S. market. Carrefour and Barclays Bank establish worldwide networks of stores and offices to be near their customers.	Wolverine World Wide, marketer of popular shoe brands (e.g., Hush Puppies, Bates), contracts with independent retail stores abroad to reach its customers.	Direct sales companies such as Amway and Avon employ their own independent sales force in China, Mexico, and elsewhere, in order to reach end-users. Toyota maintains sales and customer service operations abroad in order to meet customer requirements more effectively.

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Internationalization of the Firm's Value Chain

- The truly international firm configures its sourcing, manufacturing, marketing, and other value-adding activities on a global scale.
- Rationale:
  - cost savings
  - increase efficiency, productivity, and flexibility of value chain activities
  - access customers, inputs, labor, or technology
  - benefit from foreign partner capabilities

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Ethical Connections

- In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.
- This led to a big rise in productivity and commerce, which has helped improve living standards.
- Access to cell phones saves wasted trips, provides access to education and healthcare, and facilitates communication between suppliers and customers.
- MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.

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You Can Do It: Recent Grad in IB

TERRANCE ROGERS

Terrance's majors: Finance and International Business

Objectives: Exploration, international perspective, self-awareness, career growth, learning about foreign markets

Internships during college: Deutsche Bank

Jobs held since graduating: All at Deutsche Bank, Business Analyst, Management Associate, Executive Management Rotation, in New York. Most recently, Executive Management Associate at Deutsche Bank, London.

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You Can Do It (cont'd)

Terrance's Advice for an International Career: Early exposure at his university to international business and study abroad

Success Factors:

(a) work on projects that expose you to people in different regions across the globe;
(b) mention your interest in working abroad early and bring it up in your annual review;
(c) find a way to impress the people who can make the decision. It becomes easier to make the move when the "right people" know you can deliver.

Challenges: Language and cultural barriers should be faced early in your career. Learn from cultural missteps early, so that you can be a better leader tomorrow.

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