International Business

Introduction

- Globalization is occurring in the world economy. Since the collapse of communism at the end of the 1980’s, nation after nation has swung towards being free markets.
- Regulatory and administrative barriers to doing business in foreign nations have come down. The trend is privatizing state-owned equities, deregulating markets, increasing competition, welcoming investment by foreign businesses.

What is Globalization?

- The shift toward a more integrated and inter-dependent world economy.

The Globalization of Markets

- The merging of historically distinct and separate national markets into a global marketplace. Falling barriers to cross-barrier trade have made it easier to sell internationally. Tastes and preferences are converging on a global norm.
- Firms such as Coca-Cola, McDonalds and Sony are both benefactors and facilitators of this worldwide trend, helping to create a global market.
- Many differences still exist within markets such as consumer tastes and preferences, distribution channels, culturally embedded value system.
- Most global markets are currently for industrial goods and materials that serve a universal need the world over. Microprocessors, aircraft, financial assets etc.
- Many firms compete with each other throughout the world. E.g. Coke & Pepsi. Greater uniformity is replacing diversity.

The Globalization of Production

- The sourcing of goods and services from locations around the world to take advantage of national differences in the cost and quality of factors of production (labor, energy, land, capital).
- This lowers cost, improves quality, allows firms to compete more effectively.
- Products can be outsourced and be manufactured, assembled, and then marketed and sold throughout the world.
- Because of time differences, work can essentially be done twice as fast (US programmers send work to India). Workers are being outsourced to countries where payment is cheaper.
- Robert Reich, secretary of labor to Clinton, argues that it is becoming irrelevant to talk about “American or Japanese products”. Increasingly they are “global products”.
- One must be careful not to push the globalization of production too far. There are still formal and informal barriers to trade between countries.

The Emergence of Global Institutions

As markets globalize, global institutions have been created to govern the global business system.

- WTO
  - (Replaced GATT) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties endorsed by WTO member states.
  - May 2005, 148 nations that collectively account for 97% of world trade were WTO members. The organization has enormous scope and influence.
  - The WTO has promoted the lowering of barriers to cross-border trade and investment. However critics charge the WTO of usurping the national sovereignty of member states.
- IMF and World Bank
  - Both created in 1944. Both are significant players in the world economy.
  - IMF'sg purpose is to maintain order in the international monetary system. For nations whose economies are in turmoil and currencies are losing value. Has lent money to Argentina, Indonesia, Mexico etc. In return for loans, the IMF requires nation-states to adopt economic policies aimed at returning their economies to stability and growth. This is controversial, usurping the sovereignty of nation-states.
  - World Bank's purpose is to promote economic development.
- United Nations
  - Established in 1945. 191 members. Members agree to accept the obligations of the UN charter. The charter: Maintains, international peace and security, develop friendly relationships among nations, promoting respect for human rights, harmonizing nations actions.

Drivers of Globalization

Declining Trade and Investment Barriers

- International trade occurs when a firm exports goods or services to consumers in another country.
- FDI occurs when a firm invests resources in business activities outside its home country.
- Tariffs and retaliatory trade barriers between countries have depressed world demand in the past (Great Depression of the 1930's). Having learned from this, the advanced industrial nations of the West committed themselves to removing barriers through GATT. Continues today through the WTO.
- Avg. agricultural tariffs are still 40%. Rich nations spend $300b. a year in subsidies to support their farm sectors. The world's poorer nations have the most to gain from any such reduction in tariffs or subsidies.
- FDI laws are also creating a more attractive environment. Bilateral investment treaties are very prevalent (2000+ in 2003).
- The volume of world merchandise trade has grown faster than the world economy since 1950.
- Trade in services now accounts for 20% of the value of all international trade.
- Yearly FDI outflows reached $1.3trillion in 2000, back to $620 b. in 2004.
- FDI accelerated faster than the growth in world trade.
- The foreign affiliates of multinationals had an estimated $17.6 trillion in global sales, twice as high as the value of global exports good & services combined.
- Firms are finding their home markets under attack from foreign competitors.

The Role of Technological Change

- Microprocessors and Telecommunications
  - Single most important innovation has been development of the microprocessor.
  - Global communications have been revolutionized by developments in satellite, optical fiber, wireless, Internet, www. Moore's Law (18 months)
  - International phone calls less than 10% of what they were in 1990.
- The Internet and the World Wide Web
  - By 2007 1.5 billion users (25% world pop.) will have the internet.
  - Web-based transaction valued at $6.8 trillion in 2004. (10x 2000's figure).
  - The web rolls back some of the constraints of locations, scale, and time zones. Consumers and companies can find each other all over the world.
- Transportation and Technology
  - Economically most important developments are commercial aircraft, super-freighters and containerization.
  - By 2000, avg. air transportation revenue fell by 40% over 1955. Air shipments account for 28% of the value of US trade. 7% in 1965.
- Implications for the Globalization of Production
  - Dell example: Use the internet for a globally dispersed production system. Cheap airfreight means Dell can speed up deliveries. Customer service is outsourced to Bangladesh.
  - Almost any work processes that can be digitalized will be. Work will be performed in the most efficient place in the world to do so.
- Implications for the Globalization of Markets
  - The Internet is helping to create electronic global marketplaces. Low-cost transportation adds to that.
  - The media are primary conveyors of culture, and global culture is to be expected. However very significant national differences do remain in business practices, consumer preferences etc. Business ignore differences at their peril.

The Changing Demographics of the Global Economy

- The changing world output and world trade picture
  - 1963 the US accounted for 40% of the world's output. By 2004, 21%. Still the largest industrial power and still grew at 3% average between these times. A relative decline, reflecting the growth of Asia.
  - 1963 the US accounted for 20% of the world's exports. By 2004, 10%. But still largest.
  - World Bank estimates China by 2020 will be larger than the US. The world's rich nations consisting of 55% of the economic activity will drop to 38%.
- The changing foreign direct investment picture
  - Since the 1970's, European and Japanese firms have been shifting labor-intensive manufacturing operations to developing nations.
  - The US share of FDI has dropped since the 1980's, Asia's has grown.
- The changing nature of the multinational enterprise (MNE)
  - Any business that has productive activities in 2 or more countries
  - The globalization has resulted in a relative decline in the dominance of US firms
  - The world's largest 100 multinationals still dominated by firms from developed economies. 3 firms from developing countries on there now
  - Smaller firms, Mini-Multinationals, are no the increase.
- The changing world order