



GREYSTONE COLLEGE
OPENING UP GLOBAL CAREER OPPORTUNITIES

A hand is shown holding a small globe of the Earth. The globe is positioned in the center-right of the frame, showing the Americas. The background is a serene landscape at dusk or dawn, featuring a calm body of water reflecting the sky, with dark silhouettes of trees on the far shore. The overall mood is contemplative and global.

Globalization

Unit 2

International Business & Logistics

Reference and Complementary Reading

- Chapter 1: Globalization of Global Business Today 12th Edition

Class Discussion

Come up with a class definition for the term “globalization”



Globalization in the World

Declining barriers to cross-border trade and investment

Shrinking perceived distances due to advancement in transportation and telecommunications technology

Similar material cultures around the world

Merging national economies, leading to an interdependent, integrated global economic system

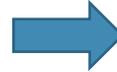
→ The process of the above transformation is called **“globalization”**

Globalization in Our Lives

What do these phrases mean to you?

- “Made in the USA”
- “Made in Germany”
- “Made in Italy”

Changing
to...



What do these phrases mean to you?

- “Made by Apple”
- “Made by BMW”
- “Made by Versace”

Which do you see more these days? What changed?

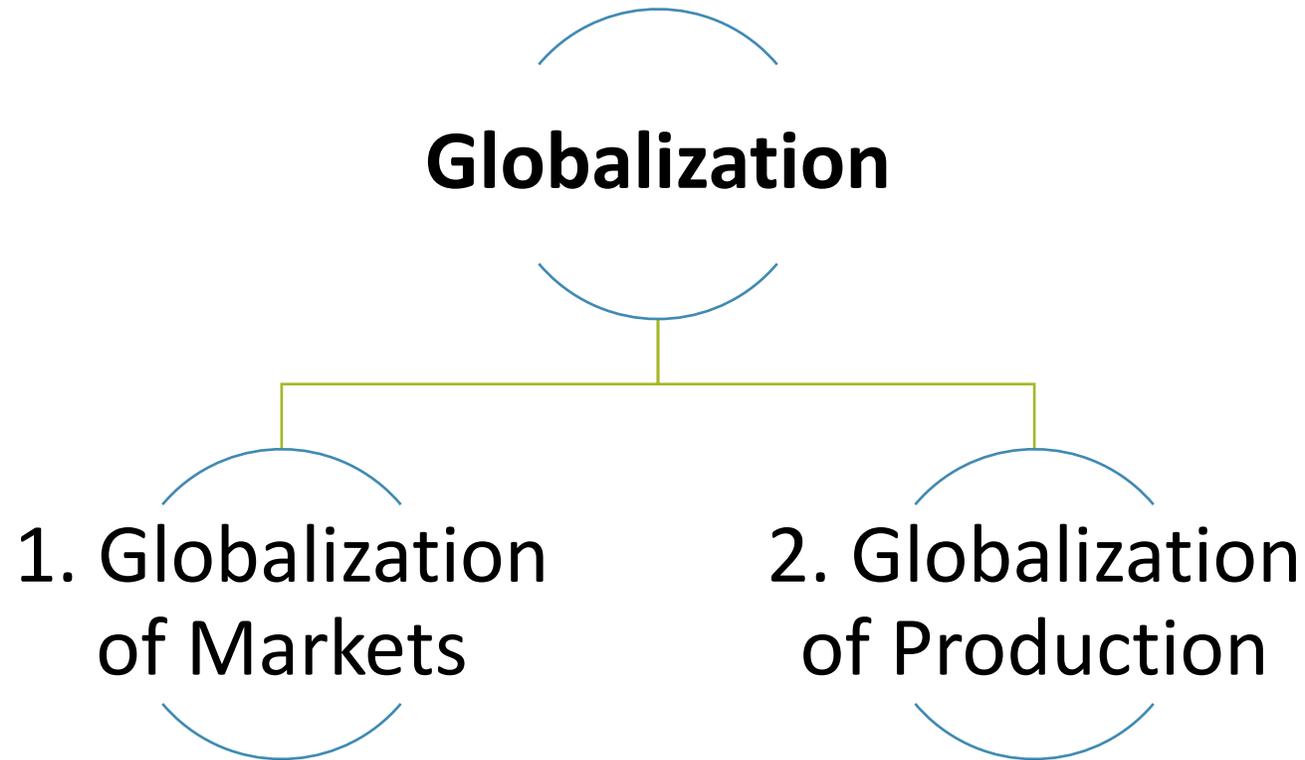
Globalization for Businesses

- **Opportunities**

- Firms can expand their revenues by selling around the world and/or reduce their costs by producing in nations where key inputs are less expensive
- Advances in technology, lower transportation costs, and the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered

...Are there threats?

Two types of Globalization



1. Globalization of Markets

PAST

An economic system in which national markets are distinct entities, isolated by trade barriers and barriers of distance, time and culture



PRESENT

A system in which national markets are merging into one global market

1. Globalization of Markets

- The margining of historically distinct and separate national markets into one huge global marketplace
- **Examples:** Citigroup credit cards, Coca-Cola soft drinks, Sony video games, McDonald's hamburgers, Starbucks coffee, IKEA furniture, Apple iPhones
 - These companies all offer the same basic product worldwide!
- Reasons for this trend:
 - Falling barriers to cross-border trade and investment → Ease of selling internationally
 - Tastes and preferences of consumers in different nations are beginning to converge on some global norm... thoughts?

1. Globalization of Markets

Significant differences still do exist among national markets along many relevant dimensions

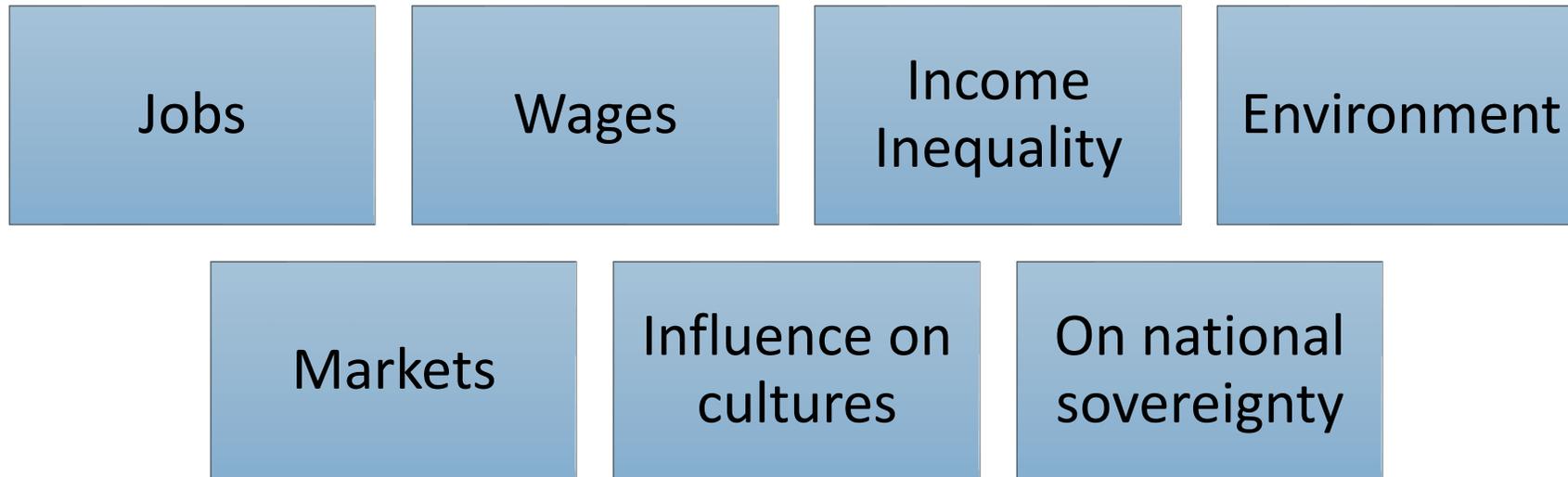
- Consumer tastes/preferences, distribution channels, culturally embedded value systems, business systems, legal regulations...
- Requires the customization of marketing strategies, product features, and operating practices to best match conditions in a particular country

In global markets, the same firms confront each other as competitors

- **Examples:** Coca-Cola vs PepsiCo, Ford vs Toyota, Boeing vs Airbus, Caterpillar vs Komatsu, Samsung vs Apple
- Firms bring the assets that served them well in other national markets
 - This creates homogeneity across markets, with greater uniformity replacing diversity

1. Globalization of Markets

- Think through the impact of globalization on...



2. Globalization of Production

- The sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production
 - More commonly known as **outsourcing**
 - ***Examples:*** labor, energy, land, capital

2. Globalization of Production



- **Read: Management Focus – Page 8**
Boeing's Global Production System
- Companies can lower their overall cost structure or improve the quality or functionality of their product offering → better at competing in the market
 - Boeing 787: 65% of the total value of the aircraft is outsourced to foreign companies (35% goes to three major Japanese companies)
 - What are Boeing's reasons for this?

2. Globalization of Production

- Reasons for the Globalization of Production (outsourcing)
 - Better-fit suppliers lead to better products, which leads to a greater share of total orders
 - Possible increase in winning orders from airlines in partner countries
 - Less time to produce or provide services (especially through the internet)
 - Less costs in developing new software or machinery
 - Cheaper labor
- What are some reasons not to outsource?

2. Globalization of Production

- Obstacles to the Globalization of Production

Formal and informal
barriers to trade
between countries

Barriers to foreign
direct investment

High transportation
costs

Issues associated with
economic and political
risk

Sheer managerial
challenge of
coordinating a globally
dispersed supply chain

Current Issues in Globalization

- Ongoing Effects of Brexit in Europe
- Renegotiated NAFTA (CUSMA)
- The Impact of Trump's "America First" policy
- Trade disputes between countries (ex: US and China)
- Covid-19 Recovery

→ **OVERALL TREND: A rise in nationalism/protectionism in many countries**



Global Institutions in International Business

The role of the WTO, IMF, World Bank, UN,
G7, G20, and more in international trade

Online activity

- **Investigate the following supranational institutions. Be prepared to present your finding to the class.**
 - What does “supranational” mean?
 - Institutions:
 - World Trade Organization (WTO) – www.wto.org
 - International Monetary Fund (IMF) – www.imf.org
 - World Bank – www.worldbank.org
 - United Nations
 - G20
 - G7
 - For each institution look for:
 1. Purpose
 2. Memberships (number of countries)
 3. Controversies against the institutions

Purpose of Global institutions

- Manage, regulate, and police the global marketplace
- Promote the establishment of multinational treaties to govern the global business system

Global institutions

- **The World Trade Organization (WTO)**
 - Polices world trading system and ensures nations adhere to the rules established in WTO treaties
 - Succeeded the General Agreement on Tariffs and Trade (GATT)
 - 164 nations accounted for 98% of world trade (2020)
- **The International Monetary Fund (IMF)**
 - Promotes order in the international monetary system
 - Lender of last resort
- **The World Bank**
 - Promotes economic development using low-interest loans

Global institutions

- **The United Nations (UN)**
 - Maintains international peace and security
 - Develops friendly relations among nations
 - 193 member countries
 - Promotes respect for human rights
 - Is a center for harmonizing the actions of nations
- **The Group of 20 (G20)**
 - Finance ministers and central bank governors of 19 largest world economies
 - Represents 90% of global GDP and 80% of international global trade
 - A forum for a coordinated policy response to the financial crisis of 2008-2009
- **The Group of 7 (G7)**
 - Look at international relations and global issues in general (not just economics)



Drivers of Globalizations

The macroenvironmental factors contributing to globalization

Drivers of Globalization

1

Declining trade and investment barriers

2

The volume of world trade has been growing faster than the world GDP

1

Declining trade and investment barriers

International trade (export/import)

Occurs when a firm exports goods or services to consumers in another country

Foreign direct investment (FDI)

Occurs when a firm invests resources in business activities outside its home country

→ Both activities above have been facilitated in recent years. Free trade agreements and international organizations (GATT/WTO) both reduce trade and investment barriers

1

Declining trade and investment barriers

Average Tariff Rates on Manufactured Products as Percentage of Value

	1913	1950	1990	2018
France	21%	18%	5.9%	3.9%
Germany	20	26	5.9	3.9
Italy	18	25	5.9	3.9
Japan	30	—	3.3	2.5
Netherlands	5	11	5.9	3.9
Sweden	20	9	5.9	3.9
United Kingdom	—	23	5.9	3.9
United States	44	14	5.7	3.1

2

The volume of world trade has been growing faster than the world GDP

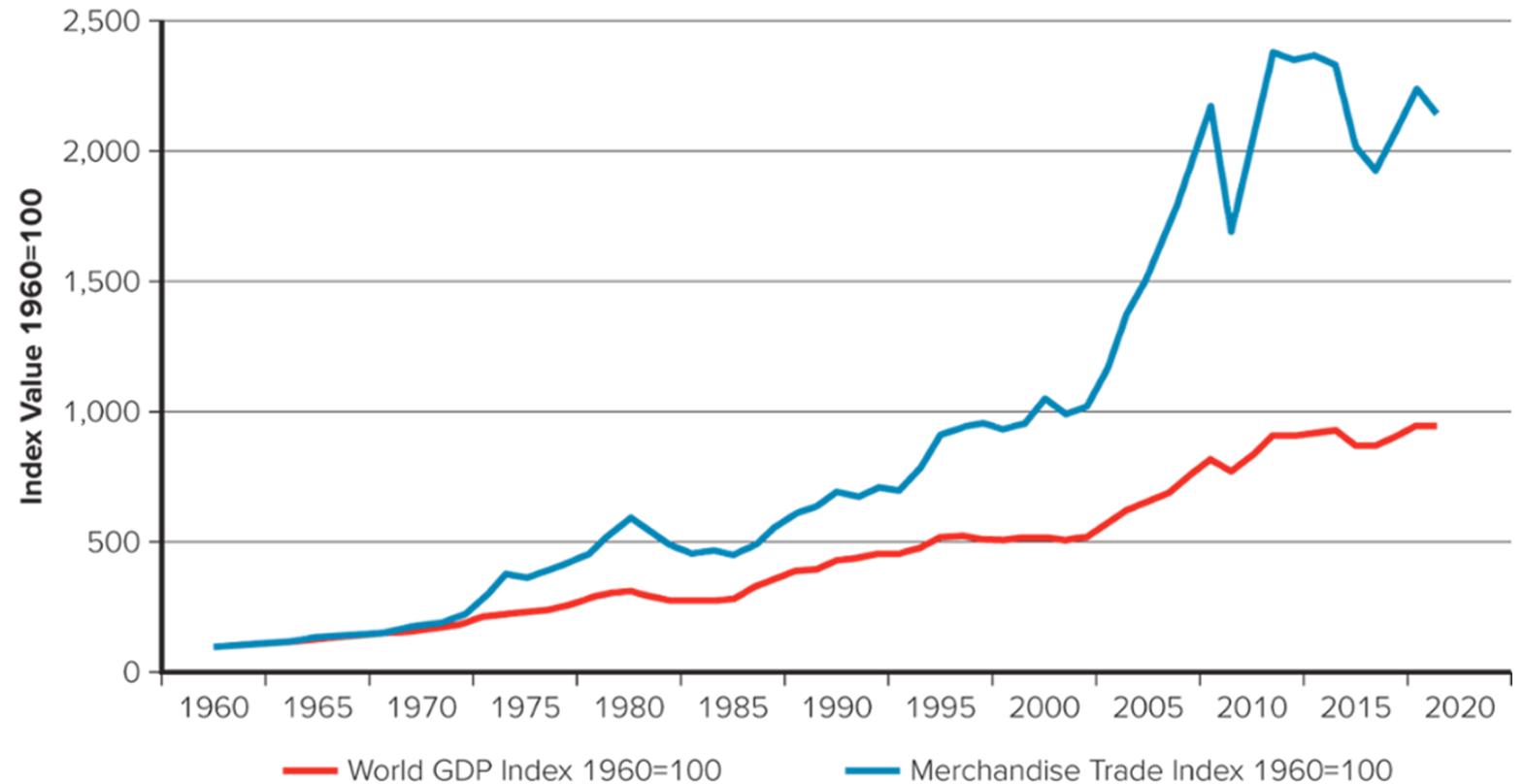
- Firms disperse parts of their production process to different locations around the globe to drive down production costs and increase product quality
- Economies of the world's nation-states are becoming ever more dependent on each other for crucial goods and services
- The world has become significantly wealthier as trade rise

Result: More competition in home markets from foreign firms

2

The volume of world trade has been growing faster than the world GDP

Value of World Merchandised Trade and World Production 1960-2019



The Role of Technological Change

- In the past 30 years, global communications have been revolutionized
 - **Example:** Developments in satellite, optical fiber, wireless technologies, Internet
- **The Internet as an equalizer**
 - 58% of the world's population uses the internet (2019)
 - Global e-commerce sales reached \$3.5 trillion in 2019
- **Transportation Technology**
 - Development of commercial jet aircraft and superfreighters
 - Introduction of *containerization* → lower transportation costs
 - https://youtu.be/Gn7IoT_WSRA



The Role of Technological Change

Implications for the Globalization of Markets

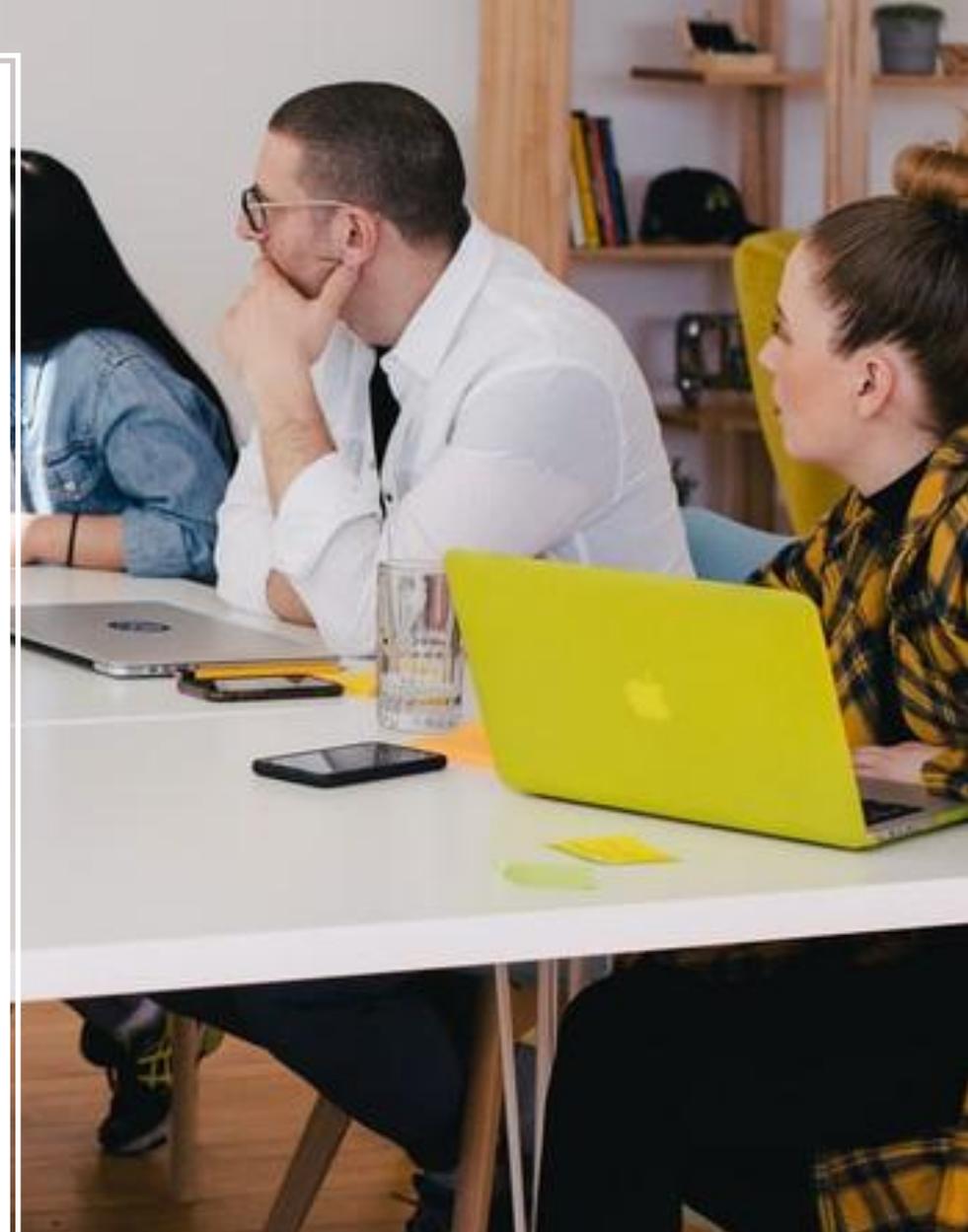
- Low-cost communication networks help create electronic global marketplace
- Low-cost transportation makes it economical to ship products around the world
- A reduction in cultural distance
- A convergence of consumer tastes and preferences

Implications for the Globalization of Production

- Lower transportation costs
- Geographically dispersed production system is more economical
- Allow firms to better respond to customer demands

Activity: How do we measure globalization?

- Researchers have created many ways to measure extent of globalization
- Review the latest Globalization Index:
 - <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>
 - Find your country's ranking on the index





Changing Demographics of the Global Economy

A shift away from the US as the main player in international trade

The Changing Global Economy

- In the 1960s:
 - U.S. dominated the world economy, world trade, and world FDI
 - U.S. MNEs dominated the international business scene
 - U.S. Was the dominant industrial power accounting for about 38.3% of world manufacturing output
 - About half the world-- the centrally planned economies of the communist world-- was off limits to Western international business

Today, much of this has changed...

The Changing Global Economy

- By 2018:
 - U.S. accounted for only 24%, China at 15.2% of world output
 - China could surpass the US within a decade, India could become the third largest by 2030

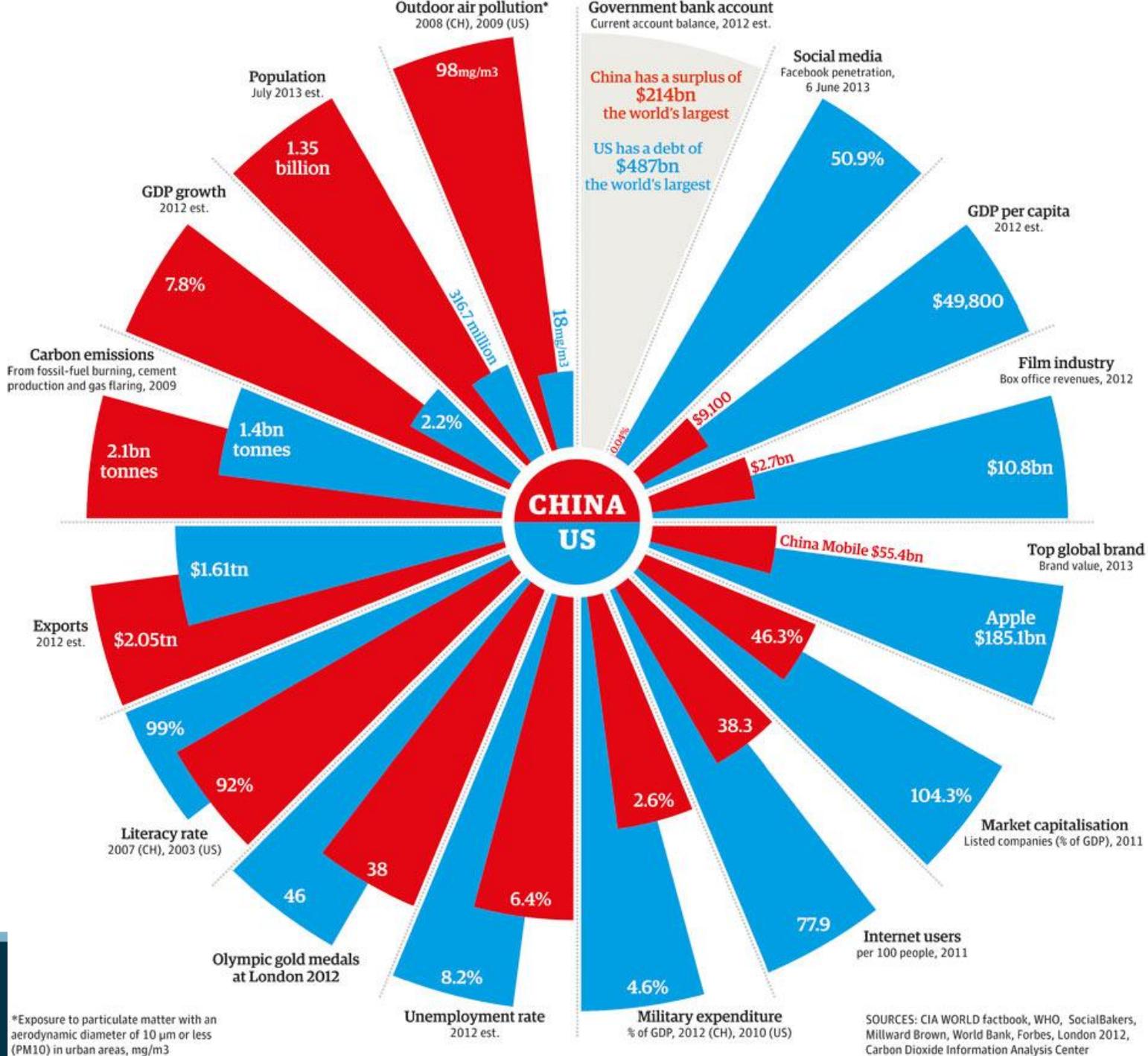
This reflects the growing economic development and industrialization of the world economy, NOT an absolute decline in the health of the US economy

The Changing Global Economy

Changing Demographics of World Output and World Exports

Country	Share of World Output in 1960 (%)	Share of World Output Today (%)	Share of World Exports Today (%)
United States	38.3%	24.0%	8.2%
Germany	8.7	4.6	7.1
France	4.6	3.2	2.8
Italy	3.0	2.4	2.4
United Kingdom	5.3	3.3	2.3
Canada	3.0	2.0	2.2
Japan	3.3	6.0	3.6
China	NA	15.2	11.1

The U.S. vs. China



The Changing Foreign Direct Investment Picture

- The share of world output generated by developing countries has been steadily increasing since the 1960s
- The **stock of foreign direct investment** (total sum of value of foreign investments) generated by rich industrial countries is declining
- Cross-border flows of foreign direct investment are rising
- The largest recipients of FDI (countries being invested in the most) are:

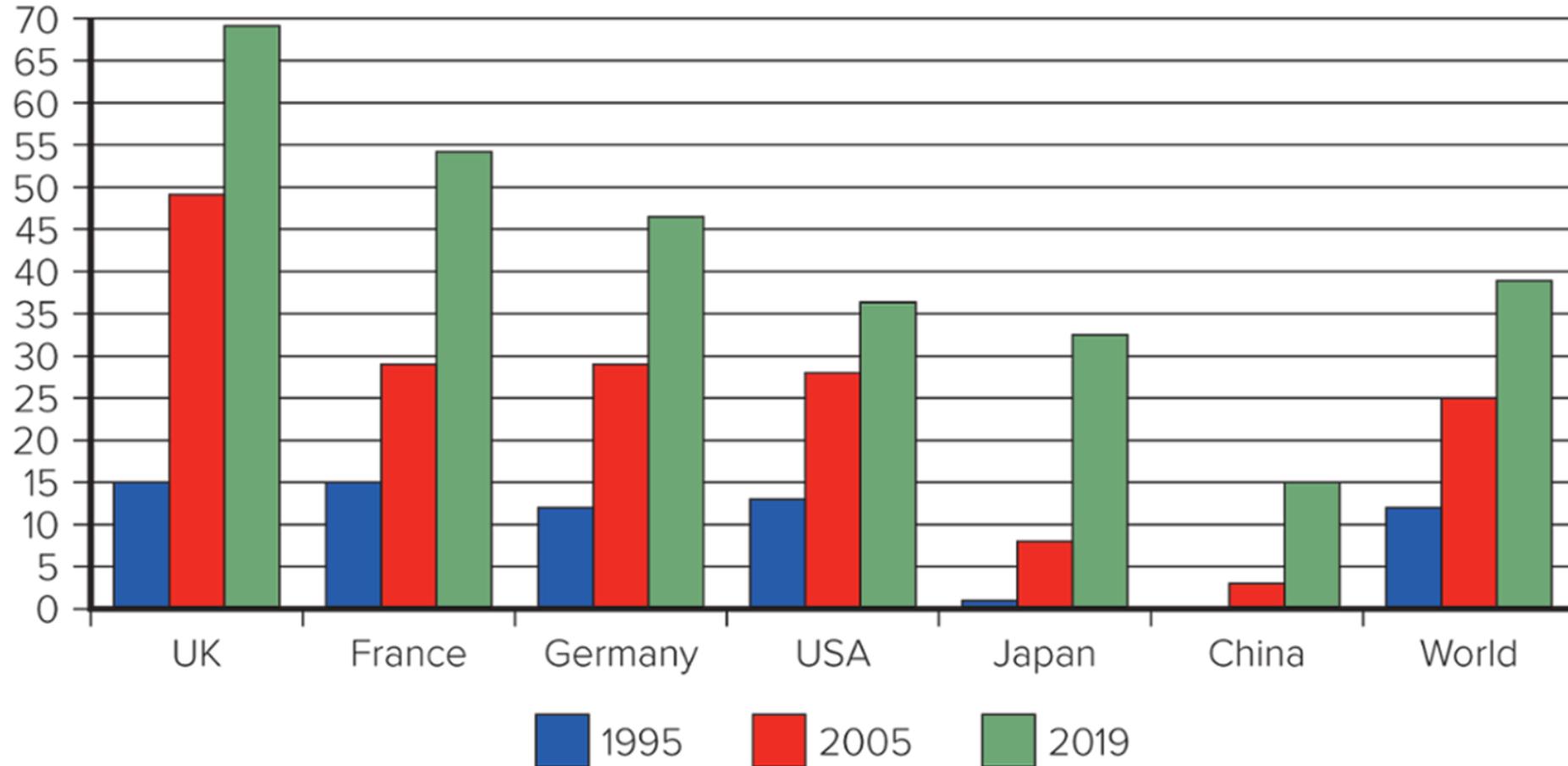
China

Brazil

Mexico

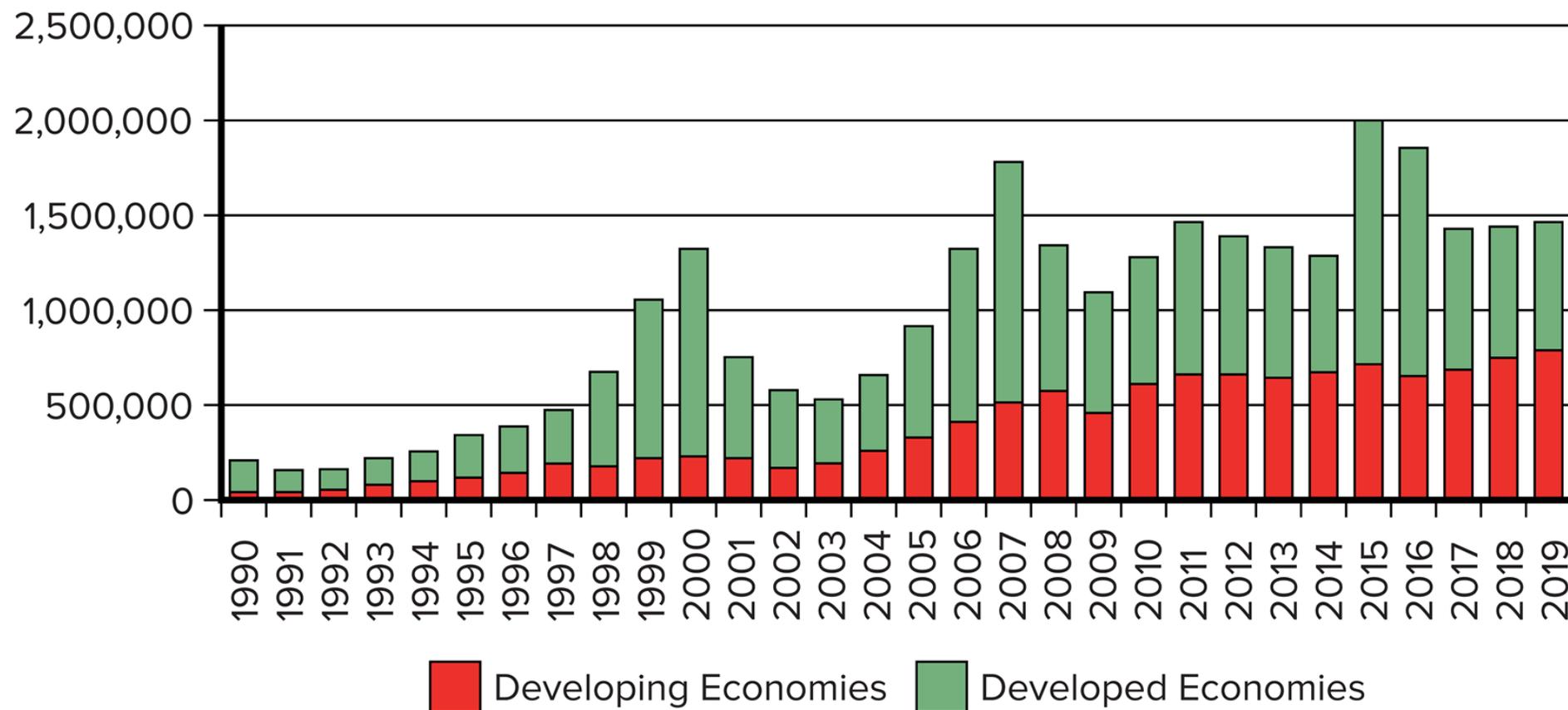
India

Percentage Share of Total FDI Stock



Source: C. W. L. Hill and G. T. M. Hult, *International Business: Competing in the Global Marketplace*. (New York, NY: McGraw-Hill Education, 2017).

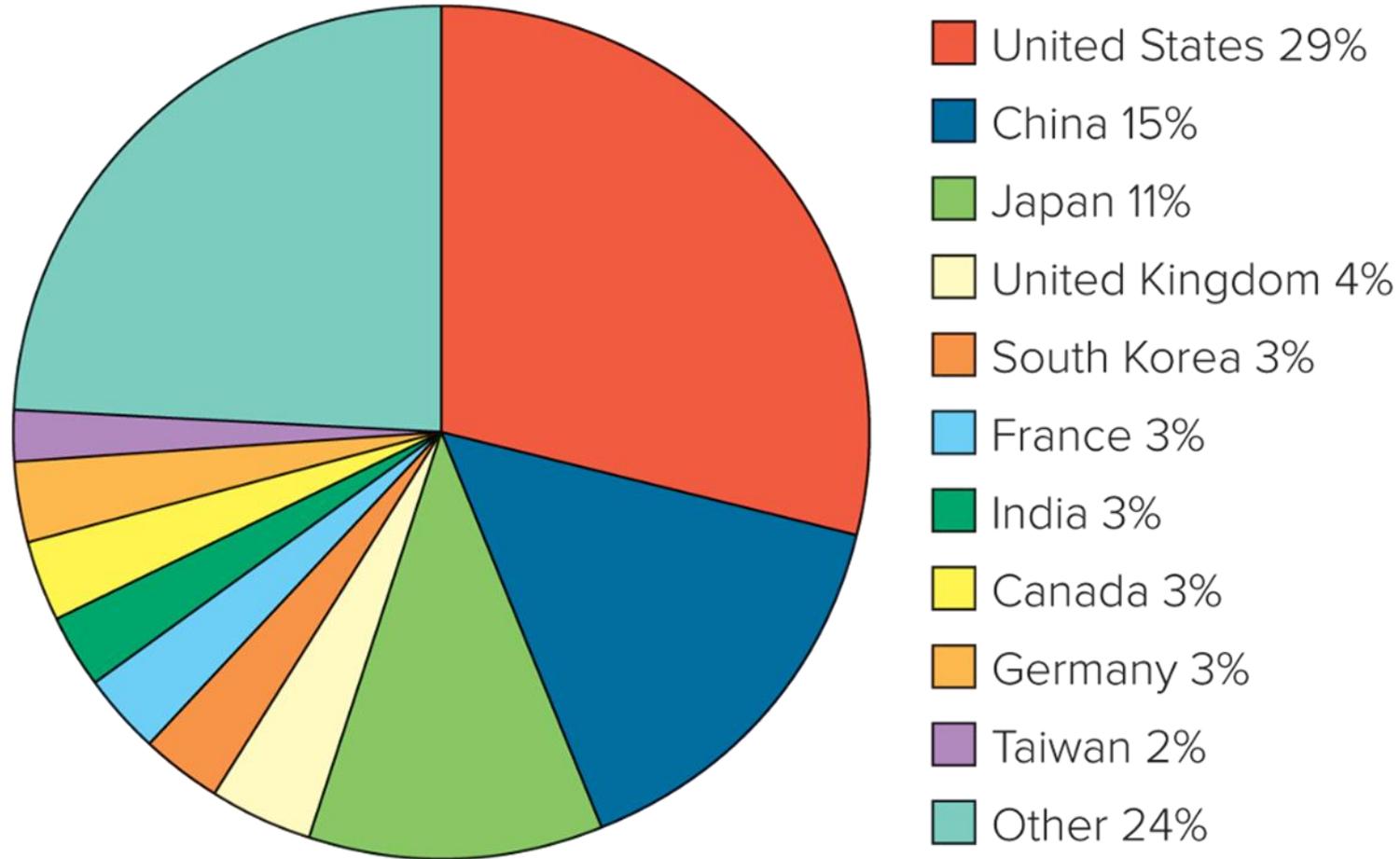
FDI inflows (in millions of dollars) 1990-2019



The Changing Nature of the Multinational Enterprise

- A **multinational enterprise (M N E)** is any business that has productive activities in two or more countries.
- In last 50 years, rise of non-U.S. multinationals and growth of mini-multinationals.
- **Non-U.S. Multinationals**
 - Large number of U.S. multinationals reflects U.S. economic dominance
 - Today, world economy is shifting away from North America and western Europe

National Share of the Largest 2,000 Multinational Corporations in 2019



The Changing Nature of the Multinational Enterprise

- **The Rise of Mini-Multinationals**

- More small- and medium-size businesses (mini-multinationals) are involved in international trade and investment.
- Internet lowers barriers that smaller firms face in building international sales.

The Changing World Order

The collapse of communism in Eastern Europe

- Greater export and investment opportunities, but political unrest is increasing risk

Economic development in China

- Huge opportunities despite continued government control, but also new competition from Chinese firms

Free market reforms and democracy in Latin America

- New markets and new sources of materials and production, but economic and political risk remains high



The Globalization Debate

Stakeholders, perspectives, and interests in globalization

The Globalization Debate

PRO

- Cross-cultural engagement and cross-border trade and investment is beneficial
- No globalization can lead to negative economic growth

CON

- Increase both national sovereignty and self-sufficiency

The Globalization Debate

- Pro-globalization vs Anti-globalization
- Provide your arguments using any source
 - Consider both sides of the argument to debate well!
- Debate Format
 - Introduction
 - Team Pro-globalization (2 minutes to argue your side)
 - Team Anti-globalization (2 minutes to argue your side)
 - Team Pro-globalization (1 minute for rebuttal)
 - Team Anti-globalization (1 minute for rebuttal)
 - Closing remarks

Is the shift toward a more integrated and interdependent global economy a good thing?

- Many experts believe that globalization is promoting greater prosperity in the global economy, more jobs, and lower prices for goods and services
- Others feel that globalization is not beneficial

Antiglobalization Protests

- Began with WTO protest in December 1999 in Seattle
 - Protest turned violent
 - Other protests have occurred worldwide
- Protestors fear globalization has detrimental effects on living standards, wages, and the environment
 - Theory and evidence suggests these fears are exaggerated

Globalization, Jobs, and Income

PRO

- Free trade will result in goods and services specialization
 - Countries will work on what they are best at
 - Lower costs and lower prices
- The economy is better off as a result

CON

- Falling barriers to international trade destroy manufacturing/service jobs in wealthy advanced economies
 - Companies move activities to places where wages are lower
- Higher unemployment and lower living standards at home

Globalization, Jobs, and Income

- Share of labor in national income has declined
 - Share of national income enjoyed by skilled labor has increased
 - Fall in labor's share is due to a fall in the share taken by unskilled labor
- Real income levels have increased overall
 - The gap between the poorest and richest segments of society in OECD countries have widened
 - Most countries' real income levels have increased overall
- Technological change has impacted demand for unskilled labor
 - The answer may be to increase society's investment in education to reduce the supply of unskilled labor

Globalization, Labor Policies, and the Environment

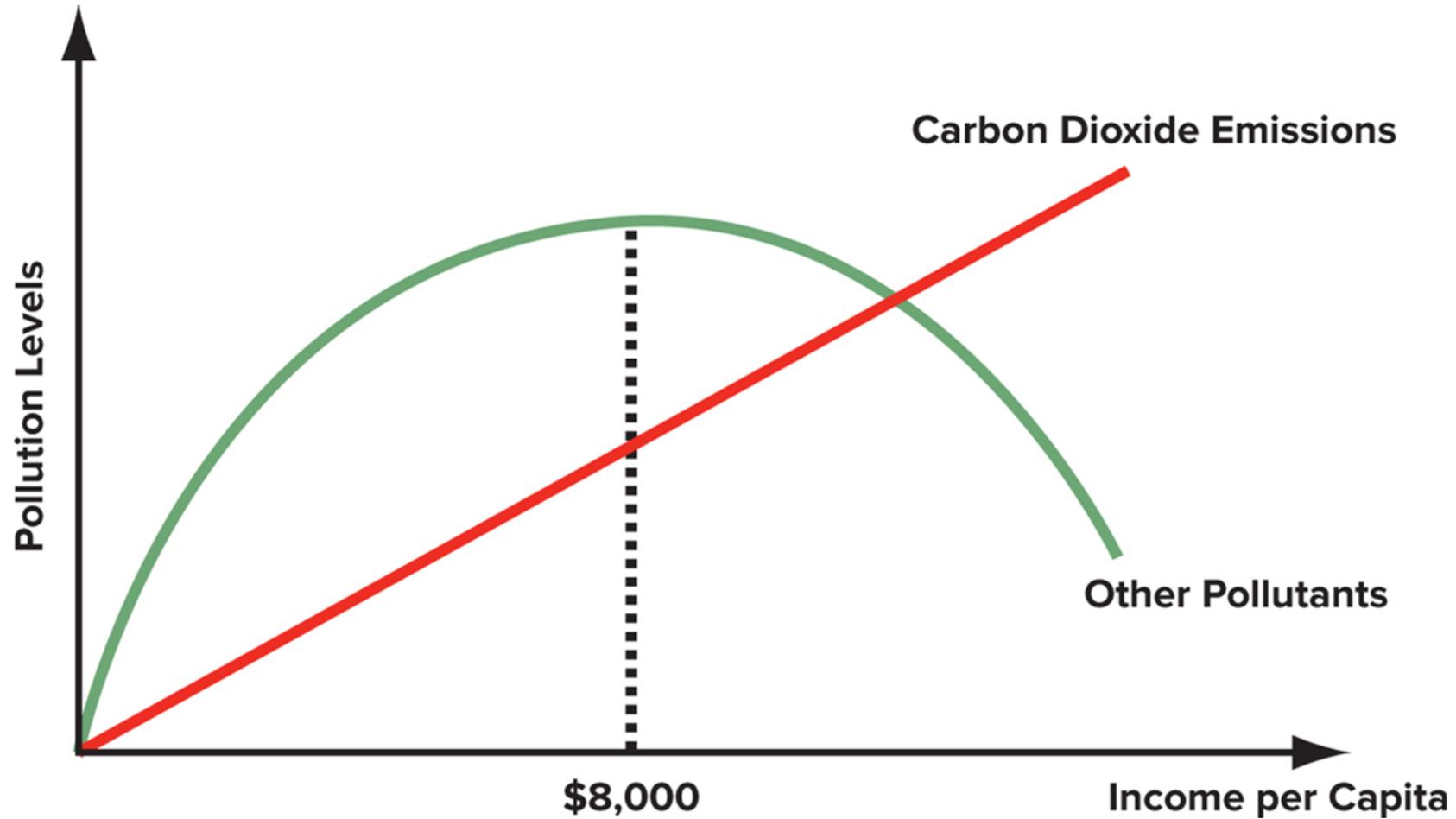
PRO

- Tougher environmental regulations and labor standards are influenced by economic progress
- Studies show a hump-shaped relationship between income and pollution levels

CON

- Free trade encourages firms from advanced nations to move to developing nations that lack regulations to protect labor and the environment
 - Adhering to such rules raise costs and puts companies at a disadvantage

Income Levels and Environmental Pollution



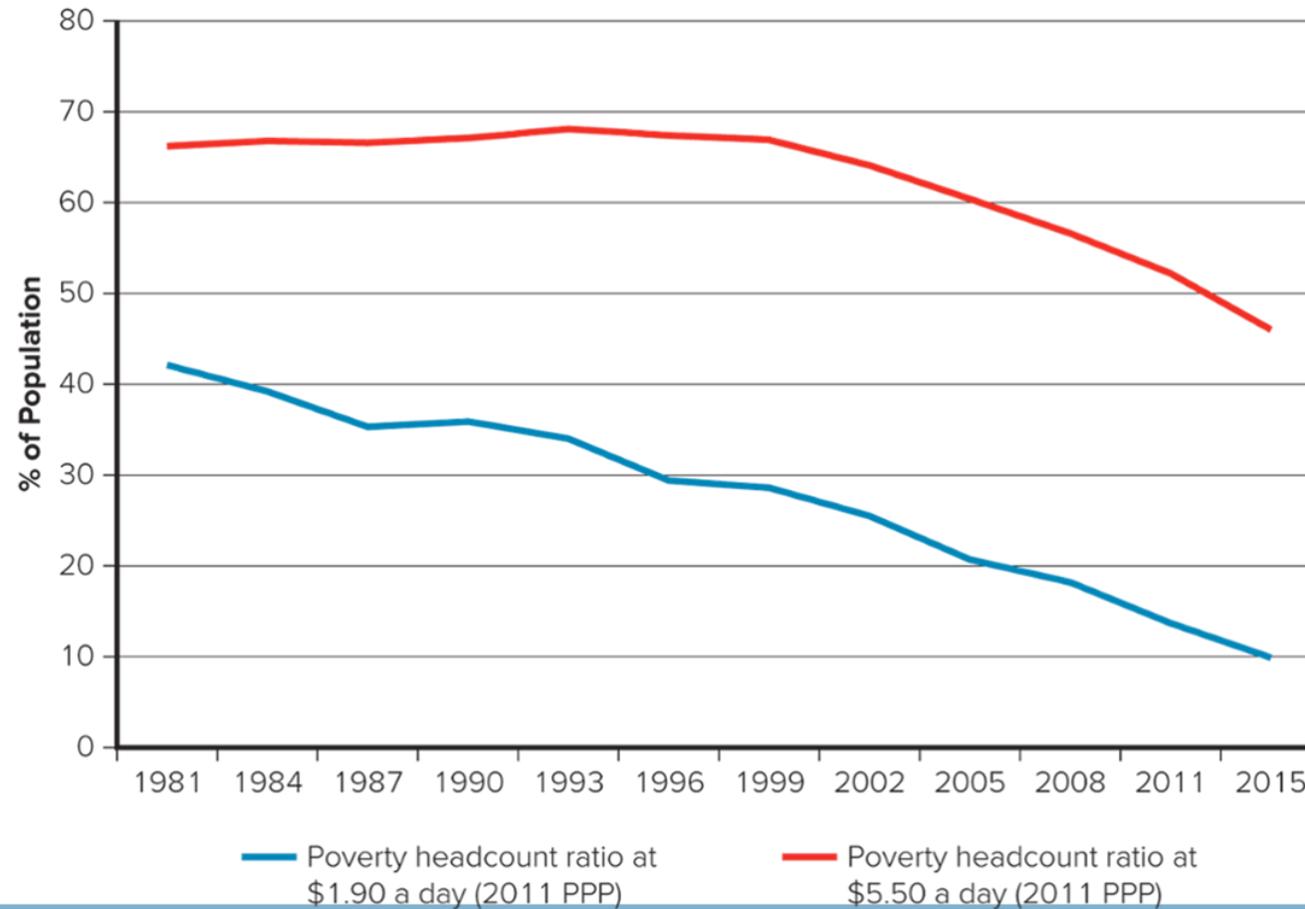
Globalization and National Sovereignty

- Critics worry economic power is shifting away from national governments and toward supranational organizations such as the WTO, the European Union (EU), and the UN
- Supporters argue that the power of these organizations is limited to what nation-states collectively agree to grant
 - The organizations must be able to persuade members states to follow certain actions
 - Without the support of members, the organizations have no power

Globalization and the World's Poor

- Critics argue the gap between rich and poor has gotten wider and the benefits of globalization have not been shared equally
 - Many of the world's poorest nations are under totalitarian regimes, suffer from endemic corruption, have few property rights, are involved in war, and are burdened by high debt
 - No money to invest in public infrastructure
- Supporters argue that the best way for these countries to improve is to lower their barriers to free trade and investment and implement economic policies based on free market economics

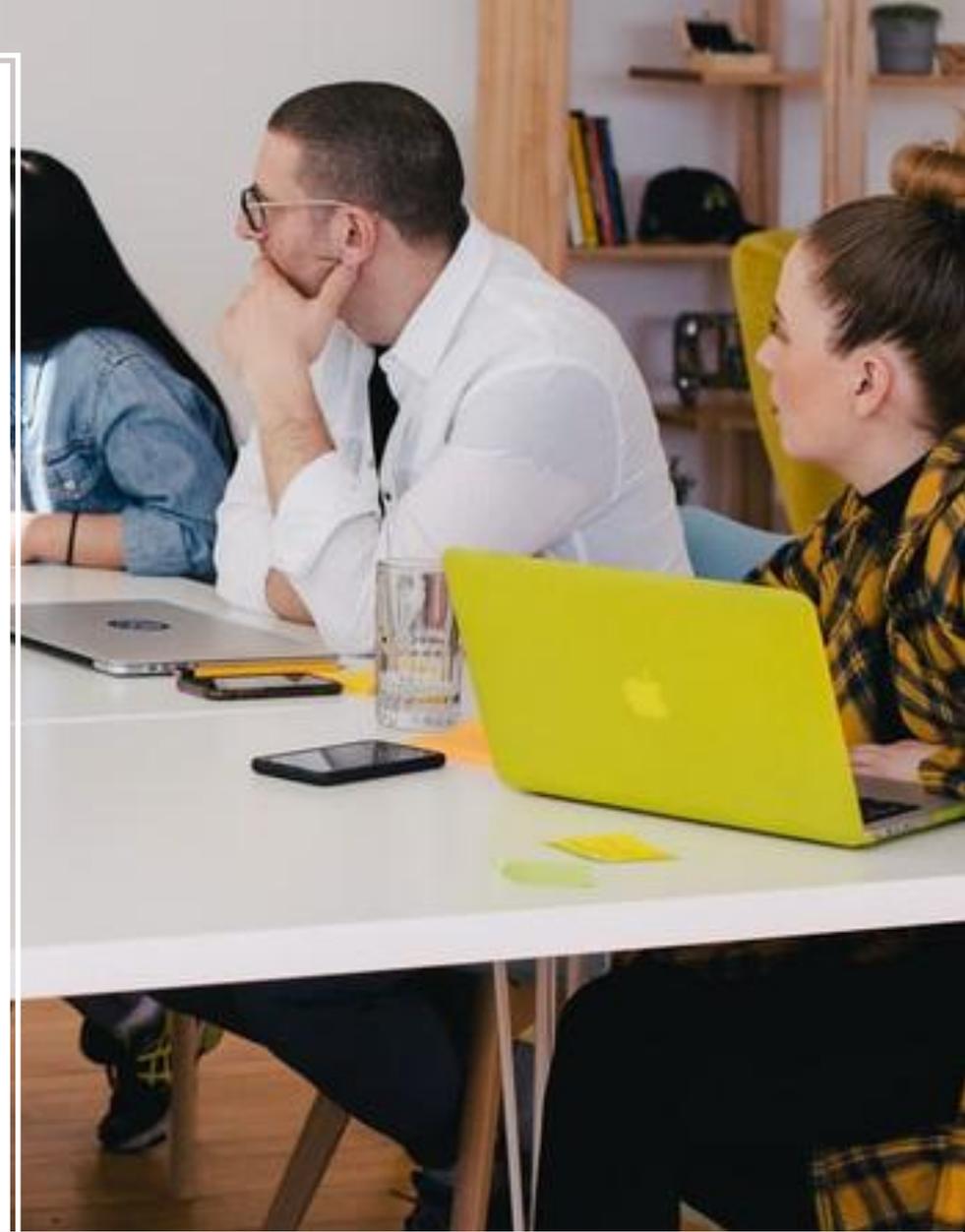
Percentage of the World's Population Living in Poverty During 1981 to 2015



Activity: Globalization in Pernambuco

In groups, come up with one example of globalization in Pernambuco

- Describe the situation to the class
- Describe the positive and negative impacts of globalization
- Has it had net positive effects? Net negative effects? Why? From whose perspective? Use globalization debate points





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