Over the past five decades, a fundamental shift has been occurring in the world econ omy.We have been moving away from a world in which national economies were rela and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems.

We are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunicationstechnology gy; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic globalization. At the same time, recent political world events (e.g., increase of terrorism, United Kingdom voting to leave the European Union, and the elections around the globe of nationalistic politicians) create tension and uncertainty regarding the future of global trade activities.

That said, globalization now does have an impact on almost everything we do. For example, the average American—let’s call the person Isabelle—might drive to work in a example, the average American—let’s call the person Isabelle—might drive to work in a car that was designed in Germany and assembled in Mexico by Ford from components made in the United States and Japan, which were fabricated from Korean steel and Malaysian rubber. Isabelle may have filled the car with gasoline at a Shell service station owned by a British-Dutch multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line. While driving to work, Isabelle might talk to her stockbroker (using a hands-free, in-car speaker) on an Apple iPhone that was designed in California and assembled in China using chip sets produced in Japan and Europe, glass made by Corning in Kentucky, and memory chips from South Korea. She could tell the stockbroker to purchase shares in Lenovo, a multinational Chinese PC manufacturer whose operational headquarters is in North Carolina and whose shares are listed on the New York Stock Exchange.

Whether it is still quality associated with the country of a product’s origin or the assurancegiven by a specific company regardless of where they manufacture the product, we live in a world where the volume of goods, services, and investments crossing national borders has expanded faster than world output for more than half a century.

For businesses, the globalization process has produced many opportunities. Firms can expand their revenues by selling around the world and/or reduce their costs by producing in nations where key inputs, including labor, are cheap.

As globalization unfolds, it is transforming industries and creating anxiety among those who believed their jobs were protected from foreign competition

We will explore how changes in regulations governing international trade and investment, when coupled with changes in political systems and technology, have dramatically altered the competitive playing field confronting many businesses FİRST discuss the resulting opportunities and threats and review the strategies that managers can pursue to exploit the opportunities and counter the threats. We will consider whether globalization benefits or harms national economies. We will look at what economic theory has to say about the outsourcing of manufacturing and service jobs to places

business firms and their employees but also to entire economies First, though, we need to get a better overview of the nature and process of globalization,

THE GLOBALİZATİON OF MARKETS refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade and investment have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping create a global market.

, significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations.

The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences can still be important enough to act as a brake on globalization—but markets for industrial goods and materials that serve universal needs the world over.

In many global markets, the same firms frequently confront each other as competitors in nation after nation.

THE GLOBALİZATİON OF PRODUCTİON refers to the sourcing of goods and services from locationsaround the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). Companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

Part of Boeing’s rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at their particular activity.

Early outsourcing efforts were primarily confined to manufacturing activities, such as those undertaken by Boeing and Apple. Increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations.

The economist Robert Reich has argued that as a consequence of the trend exemplified by companies such as Boeing, Apple, and Microsoft, in many cases it is becoming irrelevantto talk about American products, Japanese products, German products, or Korean products.

n the creation of products that are global in nature, that is, “global products.

THE EMERGENCE OF GLOBAL INSTİTUTİONS

As markets globalize and an increasing proportion of business activity transcends national borders, institutions are needed to help manage, regulate, and police the global market placeand to promote the establishment of multinational treaties to govern the global businesssystem.

the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization; the International Monetary Fund and its sister institution, the World Bank; and the United Nations.

All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

The World Trade Organisation (WTO) like the GATT before is primarily responsiblefor policing the world trading system and making sure nation-s tates adhere to the rules laid down in trade treaties signed by WTO member states.

The WTO is also responsible for facilitating the establishment of additional multinational agreements among WTO member states.

The İnternational Monetary Fund (İMF) and the World Bank were both created in 1944 by 44 nations that met at Breton Woods New Hampshire. The IMF was established to maintain order in the international monetary system; the World Bank was set up to promote economic development.

The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations.

The United Nations was established October 24, 1945, by 51 countries committedto preserving peace through international cooperation and collective security.

the UN has four purposes: to maintain international peace and security, to develop friendly relations among nations, to cooperate in solving international problems and in promoting respect for human rights, and to be a center for harmonizing the actions of nations.

Another ınstıtution is the Group of Twenty (G20). Established in 1999, the G20 comprises the finance ministers and central bank governors of the 19 largest economies in the world, plus representatives from the European Union and the European Central Bank. Collectively, the G20 represents 90 percent of global GDP and 80 percent of international global trade.

DRİVERS OF GLOBALİZATİON

Two macro factors underlie the trend toward greater globalization, The first is is the decline in barriers to the free flow of goods, services, and capital that has occurred in recent de cades. The second factor is technological change, particularly the dramatic developments in communication, information processing, and transportation technologies.

DECLINING TRADE AND INVESTMENT BARRIERS

During the 1920s and 1930s, many of the world’s nation-states erected formidable barriers to international trade and foreign direct investment. International trade 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. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition.

raising trade barriers against each other

after World War II to progressively reducing barriers to the free flow of goods, services, a nd capital among nations

known as the Uruguay Round

Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copy rights;and established the World Trade Organization to police the international trading system .

The figure illustrates some interesting changing globalization trends the value of world trade in merchandised goods has grown consistently faster than the growth rate in the world economy since 1950,

As a consequence, by 2020 the value of world trade is expected to be 167 times larger than it was in 1960, whereas the world economy will be 65 times larger. This trend has continued into the modern era. Between 2000 and 2020, the value of world trade increased 3.3 times whereas the world economy has increased 2.6 times. Perhaps the most obvious difference is between world trade and world production. Trade across country borders is 2.6 times higher than world production, a figure that has gone up drastically since 2000.

The difference in the growth rates of world production and world trade is why studying international business is so important. While we produce more goods and services today compared with before, a far greater proportion of that production is being traded across national borders than at any time in modern history. has resulted in consumers knowing more than ever about goods and services beingproduced worldwide. From a customer perspective , this is driving demand for internationallytraded goods. Thus, the larger the difference between the growth rates of world trade and world production, the greater the extent of globalization and the more important it becomes to understand international business.

many countries have been progressively removing restrictions to foreign direct investment over the past 20 years

Such customer pressures and restrictions removal by countries have been driving both the globalization of markets and the globalization of production. The lowering of barriers to international trade enables firms to view the world, rather than a single country, as their market. The lowering of trade and investment barriers also allows firms to base production at the optimal location for that activity.

Another important facilitator of trade across country borders is the increased number of trade agreements that have been implemented in the world.

The fact that the volume of world trade has been growing faster than world GDP implies several things. First more firms are doing what Boeing does ispersing parts of their production process to different locations around the globe to drive down production costs and increase product quality. Second he economies of the world’s nation-states are becoming ever more intertwined. As trade expands, nations are becoming increasingly dependent on each other for important goods and services. Third the world has become significantly wealthier in the last two decades. The implication is that rising trade is the engine that has helped pull the global economy along.

Evidence suggests that foreign direct investment is playing an increasing role in the global economy as firms increase their cross-border investments.

The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets under attack from foreign competitors.

However, declining barriers to cross-border trade and investment cannot be taken for granted. demands for “protection” from foreign competitors are still often heard in countries around the world, including the United States.

ROLE OF TECHNOLOGICAL CHANGE

COMMUNİCATİONS

The microprocessor. Over the past 30 years, global communications have been revolutionized by developments in satellite, optical fiber, wireless technologies, and of course the Internet.

INTERNET OF THİNGS . It is no surprise that the Internet has developed into the information backbone of the global economy. global e-commerce

TRANSPORTATİON TECHNOLOGY. the development of commercial jet aircraft and superfreighters and the introduction of containerization , transshipment from one mode of transport to another. f travel time. Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances

As a result of the efficiency gains associated with containerization, transportation costs have plummeted

IMPLİCATİONS FOR THE GLOBALİZATİON OF PRODUCTİON

As transportation costs associated with the globalization of production have declined, dispersalof production to geographically separate locations has become more economical. technological innovations discussed earlier, the real costs of information processing and communication have fallen dramatically in the past two decades. to create and then manage a globally dispersed production system,

IMPLİCATİONS FOR THE GLOBALİZATİON OF MARKETS

technological innovations have facilitated the globalization of markets

This has has reduced the cultural distance between countries and is bringing about some convergence of consumer tastes and preferences.

THE CHANGİNG DEMOGRAPHİCS OF THE GLOBAL ECONOMY

As late as the 1960s, four stylized facts described the demographics of the global economy. The first was U.S. dominance in the world economy and world trade picture. The second was U.S. dominance in world foreign direct investment. Related to this, the third fact was the dominance of large, multinational U.S. firms on the international business scene. The fourth was that roughly half the globe—the centrally planned economies of the communist world—was off-limits to Western international businesses.

THE CHANGING WORLD OUTPUT AND WORLD TRADE PICTURE

). Rather, it was a relative decline, reflecting the faster economic growth of several other economies, particularly China as well as several other nations in Asia

. Other countries that markedly increased their share of world output included Japan, Thailand, Malaysia, Taiwan, Brazil, and South Korea.

THE CHANGİNG FOREİGN DİRET İNVESTMENT PİCTURE

Thus, beginning in the 1970s, European and Japanese firms began to shift labor-intensive manufacturing operations from their home markets to developing nations where labor costs were lower

these investments to head off growing political pressures in the United States and Europe to restrict Japanese automobile exports into those markets.

two other important trends—the sustained growth in cross-border flows of foreign direct investment that has occurred since 1990 and the increasing importance of developing nations as the destination of foreign direct investment

THE CHANGING NATURE OF THE MULTINATIONAL ENTERPRISE

A multinational enterprise (MNE) is any business that has productive activities in two or more countries. In the last half a century, two notable trends in the demographics of the multinational enterprise have been (1) the rise of non-U.S. multinationals and (2) the growth of mini-multinationals

THE CHANGING WORLD ORDER

Between 1989 and 1991, a series of democratic revolutions swept the communist world. For reasons that are explored in more detail in Chapter 3, in country after country through out eastern Europe and eventually in the Soviet Union itself

For half a century, these countries were essentially closed to Western international businesses. Now, they present a host of export and investment opportunitie

n addition to these changes, quieter revolutions have been occurring in China, other states in Southeast Asia, and Latin America. Their implications for international businesses may be just as profound as the collapse of communism in eastern Europe

The potential consequences for international business are enormous.

s for Latin America, both democracy and free market reforms have been evident there too.

GLOBAL ECONOMY OF THE TWENTY-FIRST CENTURY

The past quarter century has seen rapid changes in the global economy. Barriers to the free flow of goods, services, and capital have been coming down. As their economies advance, more nations are joining the ranks of the developed world.

ut it is always hazardous to use established trends to predict the future

lobal financial crises

crisis that started in the financial sector of America, where banks had been too liberal in their

lending policies to homeowners, swept around the world and plunged the global economy into its deepest recession since the early 1980s

THE GLOBALİZATİON DEBATE

They argue that falling barriers to international trade and investment are the twin engines driving the

global economy toward greater prosperity. They say increased international trade and cross borderinvestment will result in lower prices for goods and services. They believe that globalization stimulates economic growth, raises the incomes of consumers, and helps create jobs in all countries that participate in the global trading system.

ANTIGLOBALIZATION PROTESTS

n an attempt to shut down a World Trade Organization meeting being held in the city. The demonstrators were protesting against a wide range of issues, including job losses in industries under attack from foreign competitors, downward pressure on the wage rates of unskilled workers, environmental degradation, and the cultural imperialism of global media and multinational enterprises, which was seen as being dominated by what some protesters called the “culturally impoverished” interests and values of the United States.

MANAGİNG İN THE GLOBAL MARKETPLACE

s is any firm that engages in international trade or investment.A firm does not have to become a multinational enterprise, investing directly in operations in other countries, to engage in international business, although multinational enterprises are international businesses

As their organizations increasingly engage in cross-border trade and investment, managers need to recognize that the task of managing an international business differs from that of managing a purely domestic business in many ways

Countries differ in their cultures, political systems, economic systems, legal systems, and levels of economic development.Despite all the talk about the emerging global village and despite the trend toward globalization of markets and production, as we shall see in this text, many of these differences are very profound and enduring. Differences among countries require that an international business vary its practices country by country.

A further way in which international business differs from domestic business is the greater complexity of managing an international business. İn addition to the problems that arise from the differences between countries, a manager in an international business is confronted with a range of other issues that the manager in a domestic business never confronts.

The managers of an international business must decide where in the world to site production activities to minimize costs and maximize value added. They must decide whether it is ethical to adhere to the lower labor and environmental standards found in many less developed nations.Then they must decide how best to coordinate and control globally dispersed productionactivities (which, as we shall see later in the text, is not a trivial problem). The managers in an international business also must decide which foreign markets to enter and which to avoid. They must choose the appropriate mode for entering a particular foreign country. Is it best to export its product to the foreign country? Should the firm allow a local company to produce its product under license in that country? Should the firm enter into a joint venture with a local firm to produce its product in that country? Or should the firm set up a wholly owned subsidiary to serve the market in that country? As we shall see, the choice of entry mode is critical because it has major implications for the long-term health of the firm. Conducting business transactions across national borders requires understanding the rules governing the international trading and investment system. Managers in an international business must also deal with government restrictions on international trade and investment. They must find ways to work within the limits imposed by specific governmental interventions. As this text explains, even though many governments are nominally committed to free trade, they often intervene to regulate cross-border trade and investment. Managers within international businesses must develop strategies and policies for dealing with such interventions. Cross-border transactions also require that money be converted from the firm’s home currency into a foreign currency and vice versa. Because currency exchange rates vary in response to changing economic conditions, managers in an international business must develop policies for dealing with exchange rate movements. A firm that adopts the wrong policy can lose large amounts of money, whereas one that adopts the right policy can increase the profitability of its international transactions

In sum, managing an international business is different from managing a purely domestic business for at least four reasons: (1) countries are different, (2) the range of problems confronted by a manager in an international business is wider and the problems them selves more complex than those confronted by a manager in a domestic business, (3) an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system, and (4) international transactions involve converting money into different currencies.