

CHAPTER 1

GLOBALIZATION

I. WELCOME TO THE WORLD OF GLOBAL BUSINESS

Globalization—defined as awareness, understanding, and response to global developments and linkages—holds the promise of improved quality of life and a better society, even leading, as some believe, to a more peaceful world. International business offers companies new markets. Today and in the future, only a combination of domestic and international activities will allow for expansion, growth, and increased income. International business enables the flow of ideas, services, and capitals across the world.

Consumers benefit from international business through the new choices it offers. Not only do consumers have a wider variety of goods to choose from, but also international competition leads to improved quality and reduced prices. International business is not without challenges. Since it opens up markets to competition, it can deliver benefits and opportunity to some, while causing others to falter. Because of its ability to impact citizens, firms, and economies negatively as well as positively, international business and the ways in which it is conducted are of vital concern to countries, companies, and individuals.

II. WHAT IS GLOBAL BUSINESS?

Global business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. Primary types of international business are **import-export trade** and **foreign direct investment (FDI)**. The latter is carried out in varied forms, including wholly owned subsidiaries and joint ventures. Additional types of international business are licensing, franchising, and managing contracts.

To operate outside national borders, firms must be ready to incorporate international considerations into their thinking and planning, making decisions related to questions such as the following:

- How will our idea, good, or service fit into the international market?
- Should we enter the market through trade or through investment?
- Should I obtain my supplies domestically or from abroad?
- What product adjustments are necessary to be responsive to local conditions?
- What threats from global competition should be expected, and how can these threats be counteracted?

III. GLOBAL LINKS TODAY

Today, world trade and investment are central to the well-being of the global community. In the past 30 years alone, the volume of international trade in goods and services has expanded from \$200 billion to more than \$14 trillion. During the same period, foreign direct investment (FDI) mushroomed to more than \$10.1 trillion. The sales of foreign affiliates of **multinational corporations** are now twice as high as global exports.

IMPORT-EXPORT TRADE

The sale and purchase of tangible goods and services to and from another country.

FOREIGN DIRECT INVESTMENT (FDI)

The establishment or expansion of operations of a firm in a foreign country. Like all investments, it assumes a transfer of capital.

MULTINATIONAL CORPORATIONS

Companies that invest in countries around the globe.



The sheer volume and value of international trade has led to the forging of a network of global links around the world that binds countries, institutions, and individuals much closer than ever before. These links tie together trade, financial markets, technology and living standards in unprecedented ways.

Global linkages have also become more intense on an individual level. Communication has built new international bridges and new products have attained international appeal and encouraged similar activities around the world. Transportation links and Internet access allow individuals from different countries to meet or otherwise interact with unprecedented ease.

International business has also brought a global reorientation in production strategies. These changes have affected the international financial position of countries and the ownership of economic activities. The **composition of trade** has also been changing. More recently, there has been a shift from manufacturing to services—presaging a similar shift of trade composition for the future.

COMPOSITION OF TRADE

The ratio of primary commodities to manufactured goods and services in a country's trade.

GROSS DOMESTIC PRODUCT (GDP)

Total monetary value of goods produced and services provided by a country over a one-year period.

MACROECONOMIC LEVEL

Level at which trading relationships affect individual markets.

MICROECONOMIC LEVEL

Level of business concerns that affect an individual firm or industry.

IV. U.S. INTERNATIONAL TRADE POSITION

From a global perspective, the United States has gained in prominence as a market for the world but has lost some of its importance as a supplier. In spite of the decline in the global market share of U.S. exports, the nation's international activities have not reduced. On the contrary, exports have grown rapidly and successfully. However, many new participants have entered the international market. U.S. exports, as a share of the **gross domestic product (GDP)**, have grown substantially in recent years. However, this increase pales in comparison to the international trade performance of other nations.

Global Business Imperative

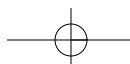
U.S. international business outflows are important on the **macroeconomic level** in terms of balancing the trade account. Lack of export growth has resulted in long-term trade deficits. In 2007, the U.S. merchandise trade deficit was estimated to be at \$458 billion. Ongoing annual trade deficits in this range are not sustainable in the long run. Such deficits add to the U.S. international debt, which must be serviced and eventually repaid. Imports in turn, bring a wider variety of products and services into a country. They exert competitive pressure for domestic firms to improve. Imports, therefore, expand the choices of consumers and improve their standard of living.

On the **microeconomic level**, participating in international business allows firms to achieve economies of scale that cannot be achieved in domestic markets. Addressing a global market greatly adds to the number of potential customers. Increasing production lets firms climb the learning curve more quickly. And, international business permits firms to hone their competitive skills abroad by meeting the challenge of foreign products.

While there are distinct benefits of going global, there are also clear risks for those firms that opt not to do so. Firms that operate only in the domestic market can no longer ignore the onslaught of foreign competition that diminishes their domestic market share.

V. INTERNATIONAL BUSINESS IN A NEW ERA OF RISK AND UNCERTAINTY

The terrorist attacks of September 11, 2001 against the United States created a fissure in American life. The nation's sense of stability, feeling of security, and attitudes toward the world were profoundly changed by the events of a few hours. Directly or indirectly, virtually all business activities were affected by the events. Some reactions to the events spanned international boundaries and resulted in changed approaches to business and to policy decisions around the world.



The International Reaction

The attacks have led to a changed global environment best characterized on five key dimensions: vulnerability, outrage, collaboration, politics, and connection.

1. *Vulnerability* – terrorism can affect not only those who live and work beneath aviation routes—anyone who is present or participates in any activity within any country is at risk.
2. *Outrage* – the attacks do not represent a condition of moral ambivalence where differing viewpoints lead to interpretations favoring one perspective over another.
3. *Collaboration* – ever since the demise of the Soviet Union as a competing superpower, even the closest U.S. allies have been reluctant to embrace a joint direction or a common interest.
4. *Politics* – For more than 40 years after World War II, the Coordinating Committee for Multilateral Export Controls, an organization of 16 Western nations, had largely denied or at least delayed the transfer of Western technology to unfriendly countries. A tightening of the restrictions of questionable exports to dubious customers seems to have eased the way for exports to friendly countries.
5. *Connection* – there is new sense of what nations have in common. In the past, when global issues were addressed, local concerns were emphasized. Now the focus is more on strengthening the bond between each other.

**TRUE/FALSE QUESTIONS**

1. Import-export trade is the sale and purchase of tangible goods and services to and from another country.
2. Domestic corporations are companies that invest in countries around the globe.
3. Gross national product is the total monetary value of goods produced and services provided by a country over a one-year period.
4. U.S. exports, as a share of gross domestic product, have grown substantially in recent years.
5. Macroeconomic level is the level of business concerns that affect an individual firm or country.

MULTIPLE CHOICE QUESTIONS

1. Which of the following is the establishment or expansion of operations of a firm in a foreign country?
 - a. foreign direct investment
 - b. licensing
 - c. exporting
 - d. contract manufacturing
2. The ratio of primary commodities to manufactured goods and services in a country's trade is called _____ .
 - a. gross domestic product
 - b. gross national product
 - c. composition of trade
 - d. balance of payment
3. _____ is the total monetary value of goods produced and services provided by a country over a one-year period.
 - a. Gross domestic product
 - b. foreign direct investment
 - c. gross national product
 - d. balance of payment
4. The level at which trading relationships affect individual markets is called _____ .
 - a. microeconomic level
 - b. composition of trade
 - c. balance of trade
 - d. macroeconomic level
5. The terrorist attacks of September 11, 2001, against the United States have led to a changed global environment best characterized on all of the following key dimensions EXCEPT:
 - a. vulnerability
 - b. e-commerce
 - c. collaboration
 - d. politics

