

Unit One

Globalization and International Business



Learning Objectives

- To define *globalization and international business* and show how they affect each other;
 - To understand why companies engage in international business and why international business growth has accelerated;
 - To discuss the major criticisms of globalization
 - To become familiar with different ways in which a company can accomplish its global objectives.
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Reference

- **Chapter one: Globalization and International Business;**
- **International Business: Environments & Operations**
- *by John D. Daniels, Lee H. Radebaugh, and Daniel P. Sullivan, jointly published by China Machine Press and Pearson Education. April 2014.*
- **ISBN: 978-7-111-460992**



Before globalization



Globalization



Listening material related to globalization

- Listening material 1-1: 🔊
- Listening material 1-2: 🔊
- Listening material 1-3: 🔊

Ingenuity 精巧

Recede 后退; 减弱; 撤回

Eurocentric 以欧洲为中心的

Connotation 内涵、含蓄

Inextricably 逃不掉地



Globalization

- Globalization is the ongoing process that deepens and broadens the relationships and interdependence among countries.
- It sometimes refers to the integration of world economies through the reduction of barriers to the movement of trade, capital, technology and people.



What does globalization mean?

Locations and companies that supply specific parts and components for Dell PCs

Monitors	Europe and Asia (Phillips, Nokia, Samsung, Sony, Acer)
PCBs	Asia, Scotland, and Eastern Europe
Drives	Asia, mainly Singapore
Printers	Europe
Box builds	Asian and Eastern Europe (Hon Hai/Forteq)
Chassis	Asian and Ireland (Hon Hai/Forteq)



What does “Made in China” mean?



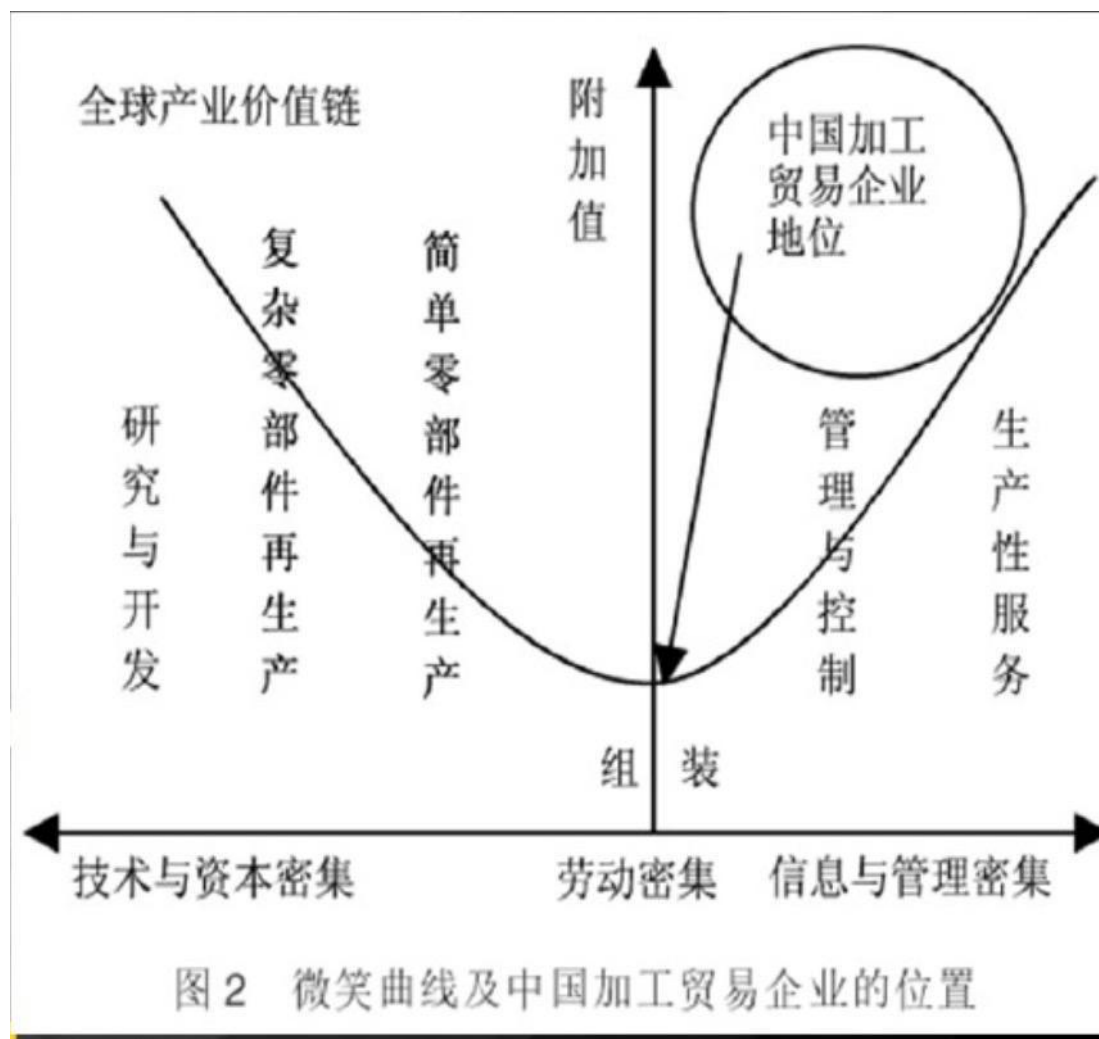
Clearly, it is becoming more and more difficult to define what is Chinese, and opinions differ widely. 🗣️

'Made in China' labels don't tell whole story

- These days, "Made in China" is actually "Made by Someone Else" - by multinational companies from Japan, South Korea and the United States that are using China as the final assembly station in their vast global production networks.
- The evolving global supply chain - which often tags goods at their final assembly stop - is increasingly out of step with global trade figures, which serve to inflate China into a bigger trade threat than it may actually be.



Processing Trade



Transforming and Upgrading



Made in China 2025

通过“三步走”实现制造强国的战略目标

第一步
到2025年

迈入制造强国行列

第二步
到2035年

我国制造业
整体达到世界制造
强国阵营中等水平

到
新中国成立
一百年时

我国制造业
大国地位更加巩固
综合实力进入
世界制造强国前列



Factors in Increased Globalization

Globalization has been growing rapidly in recent decades because of:

- technological expansion,
 - liberalization of cross-border trade and resource movements,
 - development services that support international business,
 - growing consumer pressures,
 - increased global competition,
 - changing political situations,
 - expanded cross-national cooperation.
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Class Discussion Question

Factors which decreased Globalization?



What is International Business?

- International business consists of all commercial transactions—including sales, investments, and transportation—that take place between two or more countries.
 - Private companies undertake such transactions for profit; governments may undertake them either for profit or for political reasons.
 - International Business is a mechanism to bring about globalization.
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Class Discussion Question (in pairs)

- *Why is international business necessary?*



Sample Answer: “*Why is international business necessary?*”

- It's necessary because international business may
 - ❑ lead to improved quality of life and a better society
 - ❑ present more opportunities for expansion, growth, and income of enterprises
 - ❑ cause the flow of ideas, services, and capital across the world
 - ❑ Develop and disseminate innovations more rapidly
 - ❑ better use human capital
 - ❑ permit the acquisition of a wider variety of products
 - ❑ reduce prices through international competition
-

Uncomfortable with Globalization



Antiglobalization

- To thwart the globalization process, antiglobalization forces regularly protest international conferences—sometimes violently.
 - Critics of globalization claim:
 - Threats to national sovereignty.
 - Growth and environmental stress.
 - Growing income inequality and personal stress.
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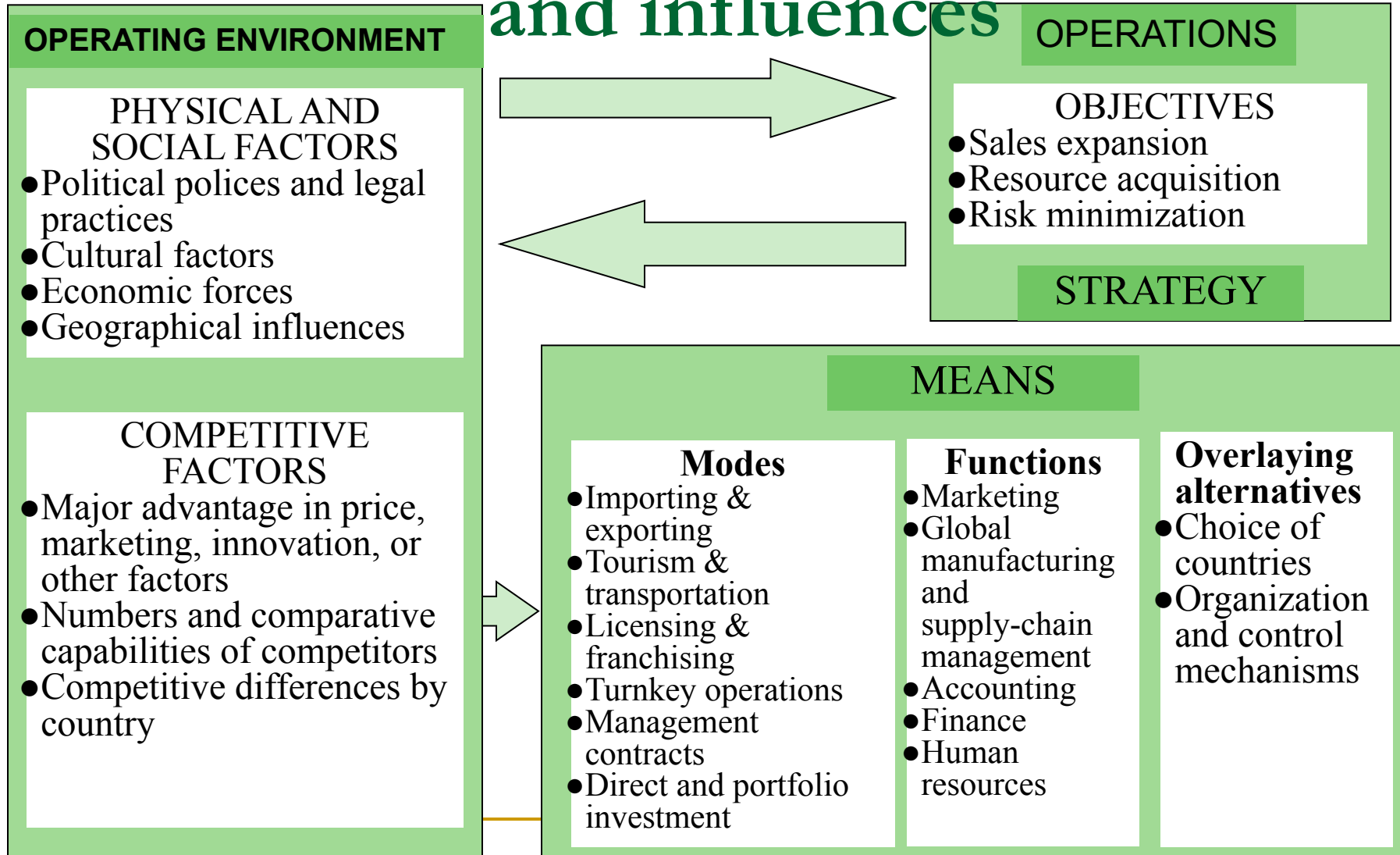
Antiglobalization (逆全球化)



Studying International Business is Important Because

- Most companies are either international or compete with international companies;
 - Modes of operations may differ from those used domestically;
 - The best way of conducting business may differ by country;
 - An understanding helps you make better career decisions;
 - An understanding helps you decide what government policies to support.
-

International business: operations and influences



Why Companies Engage in International Business (Operations)

There are three major operating objectives that underlie the reasons for companies to engage in international business:

- **To Expand Sales:** pursuing international sales increases the potential market and potential profits;
 - **To Acquire Resources:** may give companies lower costs, new and better products, additional operating knowledge;
 - **To Diversify or Minimize Risks:** international operations may reduce operating risk by smoothing sales and profits, preventing competitors from gaining advantage.
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Modes of Operations in International Business (Means)

1. Merchandise exports and imports
 2. Service exports and imports
 - Tourism and Transportation
 - Service Performance (e.g. turkey operations, management contracts)
 - Asset Use
 3. Investments
 - Foreign Direct Investment (FDI)
 - Portfolio Investment
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1. Merchandise exports and imports

- Exporting and importing are the most popular modes of international business, especially among smaller companies.
 - Merchandise exports are tangible products—goods—that are sent out of a country; merchandise imports are goods brought into a country.
 - Because we can actually see these goods as they leave and enter the country, we sometimes call them visible exports and imports.
 - **tangible goods** = material goods 有形商品
-

2. Service Exports and Imports

- Service exports and imports are international non-product sales and purchases. Currently, services constitute the fastest growth sector in international trade.
 - Examples of services are tourism, transportation, banking, insurance, and the use of assets such as trademarks, patents, and copyrights.
 - Tourism and transportation are important sources of revenue for airlines, shipping companies, travel agencies, and hotels.
 - ***invisibles*** = intangible products, immaterial goods, intangible or invisible goods. 无形商品
 - Cross-border supply/Consumption Abroad/Commercial Presence/Movement of Personnel.
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China's foreign service trade deficit widens



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Key Concepts

~ *'Turnkey Operations'*

- On an international level, companies may pay fees for engineering services rendered as so-called **turnkey operations (EPC)**, which are often construction projects performed under contract and transferred to owners when they're operational.
- e.g. China Railway Construction Corporation's high-speed railway turnkey project in Nigeria and South Africa, Indonesia and Mexico

The Incredible Chinese high-speed rail



China and Russia to build new high-speed railway



Key Concepts

~ ‘Management Contracts’

- Companies also pay fees for **management contracts**—arrangements in which one company provides personnel to perform general or specialized management functions for another.
- E.g. Disney receives fees from managing theme parks in Shanghai and Hongkong.

Asset Use

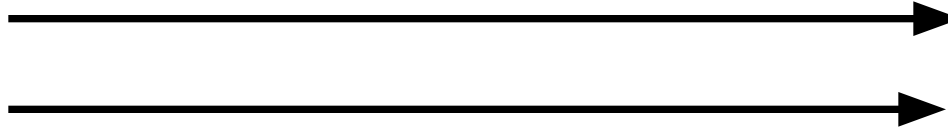
- When one company allows another to use its assets—such as trademarks, patents, copyrights, or expertise—under contracts known as **licensing agreements**, they receive earnings called **royalties**.
 - **Royalties** also come from franchise contracts. **Franchising** is a mode of business in which one party (the franchisor) allows another (the franchisee) to use a trade mark as an essential asset of the franchisee's business.
 - As a rule, the franchisor (say, McDonald's) also assists continuously in the operations of the franchisee's business, perhaps by providing supplies, management services, or technology.
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Example of Licensing

**Grant the right to use
trademarks, patents, design**

**As a way to enter into foreign
markets without investing large
amount of resources**

**Licensor
MNCs**

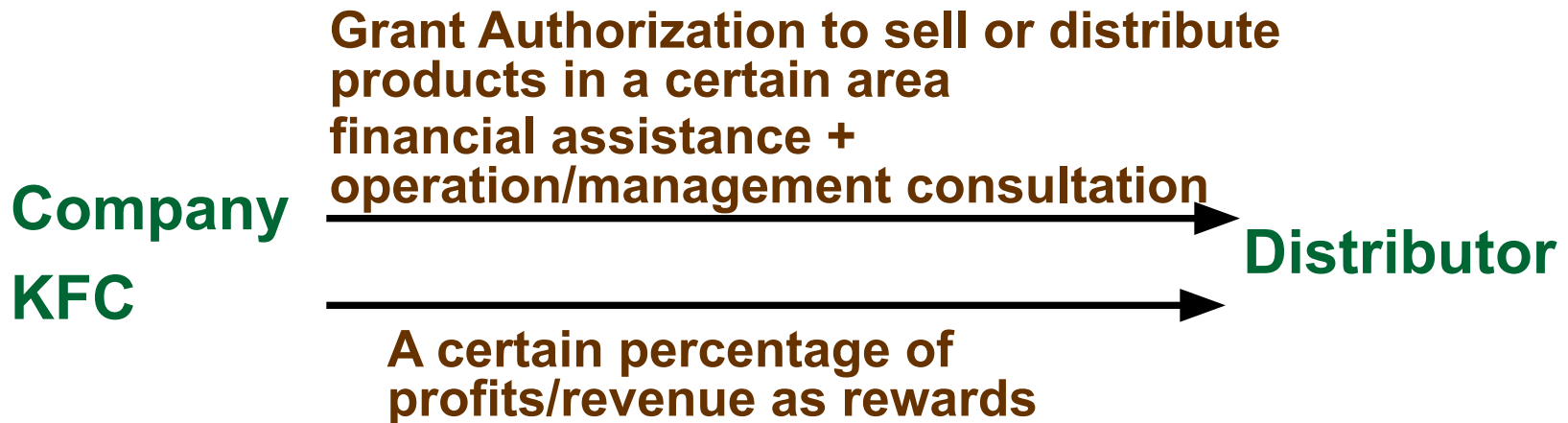


Licensee

**A certain percentage of
profits/revenue as royalties**

Licensing 许可证贸易: Licensee 被授权人; Licensor 授权人

Example of Franchising



Franchising 特许经营(特许代理): Franchise chain; Franchise store, Franchisor, Franchisee

Licensing



Franchising



3. Investments

- Foreign investment means ownership of foreign property in exchange for a financial return, such as **interests and dividends**, and it may take two forms: direct investment and portfolio investment.
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Key Concepts

~ 'Direct Investment'

- In foreign direct investment (FDI), the investor takes a controlling interest in a foreign company.
 - Control need not be a 100 percent (or even a 50 percent) interest—if a foreign investor holds a minority stake and the remaining ownership is widely dispersed, no other owner may be efficient at countering the decisions of the foreign investor.
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China Foreign Direct Investment

图1 中国对外直接投资及外商直接投资 (2004-2014)



数据来源：中国商务部和商务部统计公报

注：全部为中国全行业海外直接投资，包括金融和非金融业

China urges firms to tighten foreign investments audits



Key Concepts

~ 'Portfolio Investment'

- A portfolio investment is a noncontrolling financial interest in another entity.
- It usually takes one of two forms: stock in a company or loans to a company (or country) in the form of bonds, bills, or notes purchased by the investor.
- They're used primarily for short-term financial gain—as a relatively safe means of earning more money on a firm's investment. To earn higher yields on short-term investments, companies routinely move funds from country to country.

Multinational Enterprises

- An MNE, sometimes called multinational corporation (MNC) or transnational corporation (TNC) is a company that has a worldwide approach to markets and production or one with operations in more than one country.
 - The advent of the MNE was a response to the rising tide of trade barriers and experimentation with economic integration after World War II.
 - Foreign production through direct foreign investment became a way of circumventing (规避) trade barriers and marketing behind tariff walls to expand integrated markets.
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International Business Differs from Domestic Business (Operating environment)

- The conditions in a company's external environment that may affect the operations of international business are different from those of domestic business.
 - Operating environment:
 - Physical factors (such as a country's geography) and social factors (such as its politics, law, culture and economy)
 - Competitive factors (such as the number and strength of a company's suppliers, customers, and rival firms)
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Key Business Terms

- Foreign direct investment
- Portfolio investment
- Franchising
- Globalization
- International business
- Joint venture
- Licensing agreement
- Management contract
- Merchandise export
- Merchandise import
- Multinational corporation
- Offshoring
- Tangible vs. intangible goods
- Royalty
- Strategic alliance
- Turkey operations
- Controlling interest
- Loans, bonds, bills, notes
- Assets
- Trademarks, Patents, Copyrights
- Brand image; brand recognition
- Target market
- Distribution
- Mass-market