

International Business Environment And Business Processes



Topic 1.

GLOBALIZATION

GLOBALIZATION

- Lecture overview

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Manifestations of Globalization

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Measuring Globalization

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Understanding the Global Economy

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Tensions in the Global Landscape

1

What is Globalization?

Globalization (or globalisation) is the process of international integration arising from the interchange of world views, products, ideas and mutual sharing, and other aspects of culture. (*Wiki*)

...all those processes by which the peoples of the world are incorporated into a single world society. (*Martin Albrow and Elizabeth King*)

...is the process of world shrinkage, of distances getting shorter, things moving closer. It pertains to the increasing ease with which somebody on one side of the world can interact, to mutual benefit, with somebody on the other side of the world. (*Thomas Larsson, „The Race to the Top: The Real Story of Globalization “*)

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.
(*Globalization 101*)

1 Manifestations of Globalization

Pros:

Supporters of globalization argue that it has the potential to make this world a better place to live in and solve some of the deep-seated problems like unemployment and poverty.

1. **Free trade** is supposed to reduce barriers such as tariffs, value added taxes, subsidies, and other barriers between nations. This is not true. There are still many barriers to free trade. The Washington Post story says “the problem is that the big G20 countries added more than 1,200 restrictive export and import measures since 2008
2. The proponents say globalization represents free trade which promotes **global economic growth**; creates jobs, makes companies more competitive, and lowers prices for consumers.
3. Competition between countries is supposed to **drive prices down**. In many cases this is not working because countries manipulate their currency to get a price advantage.

1 Manifestations of Globalization

Pros:

4. It also provides poor countries, through infusions of foreign capital and technology, with the **chance to develop economically** and by spreading prosperity, creates the conditions in which democracy and respect for human rights may flourish. This is an ethereal goal which hasn't been achieved in most countries.
5. According to supporters **globalization and democracy** should go hand in hand. It should be pure business with no colonialist designs.
6. There is now a **worldwide market** for companies and consumers who have access to products of different countries. True
7. Gradually there is a **world power** that is being created instead of compartmentalized power sectors. Politics is merging and decisions that are being taken are actually beneficial for people all over the world. This is simply a romanticized view of what is actually happening. True
8. There is more **influx of information** between two countries, which do not have anything in common between them. True

1 Manifestations of Globalization

Pros:

9. There is **cultural intermingling** and each country is learning more about other cultures. True
10. Since we share financial interests, corporations and governments are trying to sort out **ecological problems** for each other. – True, they are talking more than trying.
11. Socially we have become **more open and tolerant** towards each other and people who live in the other part of the world are not considered aliens. True in many cases.
12. Most people see **speedy travel, mass communications and quick dissemination of information** through the Internet as benefits of globalization. True
13. Labor can move from country to country to **market** their **skills**. True, but this can cause problems with the existing labor and downward pressure on wages.

1 Manifestations of Globalization

Pros:

14. **Sharing technology** with developing nations will **help** them **progress**. True for small countries but stealing our technologies and IP have become a big problem with our larger competitors like China.
15. **Transnational companies** investing in installing plants in other countries provide employment for the people in those countries often getting them out of poverty. True
16. Globalization has given countries the ability to agree to **free trade agreements** like NAFTA, South Korea Korus, and The TPP (The Trans-Pacific Partnership). True but these agreements have cost the U.S. many jobs and always increase our trade deficit.

1 Manifestations of Globalization

Cons:

The general complaint about globalization is that it has made the rich richer while making the non-rich poorer. "It is wonderful for managers, owners and investors, but hell on workers and nature."

- Globalization is supposed to be about free trade where all barriers are eliminated but there are **still many barriers**. For instance 161 countries have value added taxes (VATs) on imports which are as high as 21.6% in Europe. The U.S. does not have VAT.
- The biggest problem for developed countries is that **jobs are lost and transferred to lower cost countries**. "According to conservative estimates by Robert Scott of the Economic Policy Institute, granting China most favored nation status drained away 3.2 million US jobs, including 2.4 million manufacturing jobs."
- Workers in developed countries like the US face **pay-cut demands** from employers who threaten to export jobs. This has created a culture of fear for many middle class workers who have little leverage in this global game.

1 Manifestations of Globalization

Cons:

- Large multi-national corporations have the ability to exploit **tax havens** in other countries to avoid paying taxes.
- Multinational corporations are accused of **social injustice, unfair working conditions** (including slave labor wages, living and working conditions), as well as **lack of concern for environment**, mismanagement of natural resources, and ecological damage.
- **Multinational corporations**, which were previously restricted to commercial activities, are increasingly **influencing political decisions**. Many think there is a threat of corporations ruling the world because they are gaining power, due to globalization.
- Building products overseas in countries like China puts our **technologies** at risk of **being copied or stolen**, which is in fact happening rapidly

1 Manifestations of Globalization

Cons:

- Some experts think that globalization is also leading to the **incursion of communicable diseases**. Deadly diseases like HIV/AIDS are being spread by travelers to the remotest corners of the globe.
- Globalization has led to **exploitation of labor**. Prisoners and child workers are used to work in inhumane conditions. Safety standards are ignored to produce cheap goods. There is also an increase in **human trafficking**.
- **Social welfare** schemes or “safety nets” are **under great pressure** in developed countries because of deficits, job losses, and other economic ramifications of globalization.

1 Manifestations of Globalization

- The anti-globalists also claim that **globalization is not working for the majority of the world**. “During the most recent period of rapid growth in global trade and investment, 1960 to 1998, inequality worsened both internationally and within countries. The UN Development Program reports that the richest 20 percent of the world’s population consume 86 percent of the world’s resources while the poorest 80 percent consume just 14 percent. “

Is globalization a tsunami or a
tornado?

① Manifestations of Globalization

Some conclusions:

- ✓ Global trends don't affect everybody, in the same way. Global trends have different effects depending on the part of the world, depending on the country, depending on the industry, and also depending on the company.
- ✓ Global trends entail both challenges and opportunities. Some of them are negative. They bring about bad things. But others create opportunities. They create new fields of activity. We're going to be analyzing both kinds of trends in this class.

1

5 Major

Manifestations of Globalization:

- 1. Increased cross-border activity**
- 2. Supra-national organizations and forums (UN, WB, IMF, WEF)**
- 3. Attempts at supra-national political organization (blocks and groupings, such as EU, NAFTA)**
- 4. Spread of ideas and practices**
- 5. Awareness**

2 Measuring Globalization

Two Approaches to Measurement:

- Aggregate indicators, such as level of trade, level of cross border investment, Internet use, tourism, etc.
- Networks: data on dyadic relationships (relationships between countries, between individuals, between companies).

Aggregate Globalization Indicators

Indicators:	1980	1985	1990	1995	2000	2005	2010
<i>A. Economic:</i>							
Exports + imports of goods & services, % world GDP	38.4	37.8	38.0	41.8	48.8	53.7	56.0
Developed countries, % GDP	39.5	39.1	38.0	40.9	48.1	52.0	55.9
Emerging & Developing countries, % GDP	32.8	31.2	38.1	46.4	52.5	62.0	56.7
Inward foreign direct investment stock, % world GDP	6.5	8.3	9.4	11.3	23.1	25.2	29.7
Developed countries, % GDP	4.9	6.5	8.9	10.8	22.7	25.3	30.7
Emerging & Developing countries, % GDP	11.8	14.7	13.6	16.4	40.1	50.2	60.3
Emerging & developing economies:							
% of global GDP, at purchasing power parities	31.7	32.7	32.7	33.0	34.2	38.5	45.2
% of global outward foreign direct investment stock	13.1	9.6	7.0	9.2	11.0	11.5	17.8
% of global foreign exchange reserves	...	...	...	32.9	37.1	51.9	66.6
<i>B. Financial:</i>							
Daily currency exchange turnover, % world GDP ^a	0.7	1.3	3.8	5.6	6.8	4.6 ^k	6.3
Cross-border banking external assets, % world GDP ^b	13.7	19.9	28.1	28.5	34.2	54.0	47.9
Cross-border bank loan & deposit stock, % world GDP ^b	13.9	19.9	34.3	33.1	37.6	39.1	34.9
<i>C. Internet:</i>							
Users, % world population:	...	...	0.1	0.8	6.7	16.0	30.2
Developed countries, % population	...	...	0.3	3.7	30.5	59.4	73.4
Emerging & Developing countries, % population	...	...	0.0	0.0	1.5	7.3	21.5
<i>D. Demographic:</i>							
Stock of international migrants, % world population	2.2	2.3	3.0	2.9	2.9	3.0	3.1
Refugee population, % world population	...	...	...	0.3	0.2	0.1	0.2
Worker's remittances, % of world GDP	0.41	0.39	0.42	0.36	0.43	0.63	0.75 ^m
<i>E. Political:</i>							
Nation-states with membership in the United Nations	154	159	159	185	189	191	192
International organizations, number:							
Intergovernmental	337 ⁱ	378	300 ^j	...	243	244	253
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<i>F. Social & Cultural</i>							
International tourist arrivals, % world population	3.5	6.7	8.6	9.5	11.4	13.0	13.7
Books on the topic of globalization ^e	577	1107	2152	4853	10525	22405	38440

2 Measuring Globalization

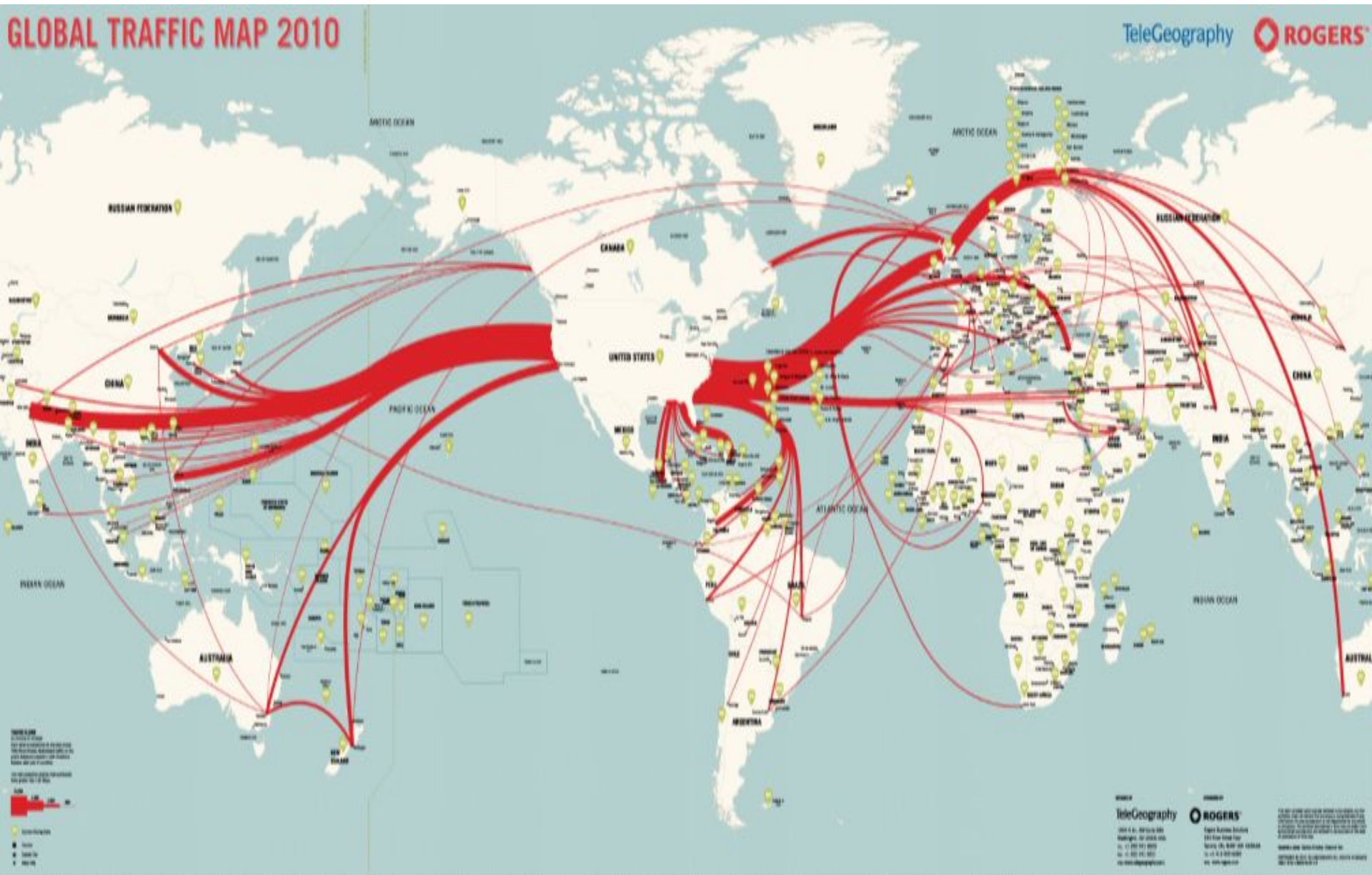
How Fast is 'Fast'?

Variable	Index 2010 (1980=100)
Exports plus imports	146
Foreign direct investment stock	457
Daily currency exchange turnover	900
Nongovernmental international organizations	192
International migration stock	141
International tourism	391
Books in print on globalization	6662

2 Measuring Globalization

GLOBAL TRAFFIC MAP 2010

TeleGeography 



TRAFFIC VOLUME
0 25 50 75 100 Gbps

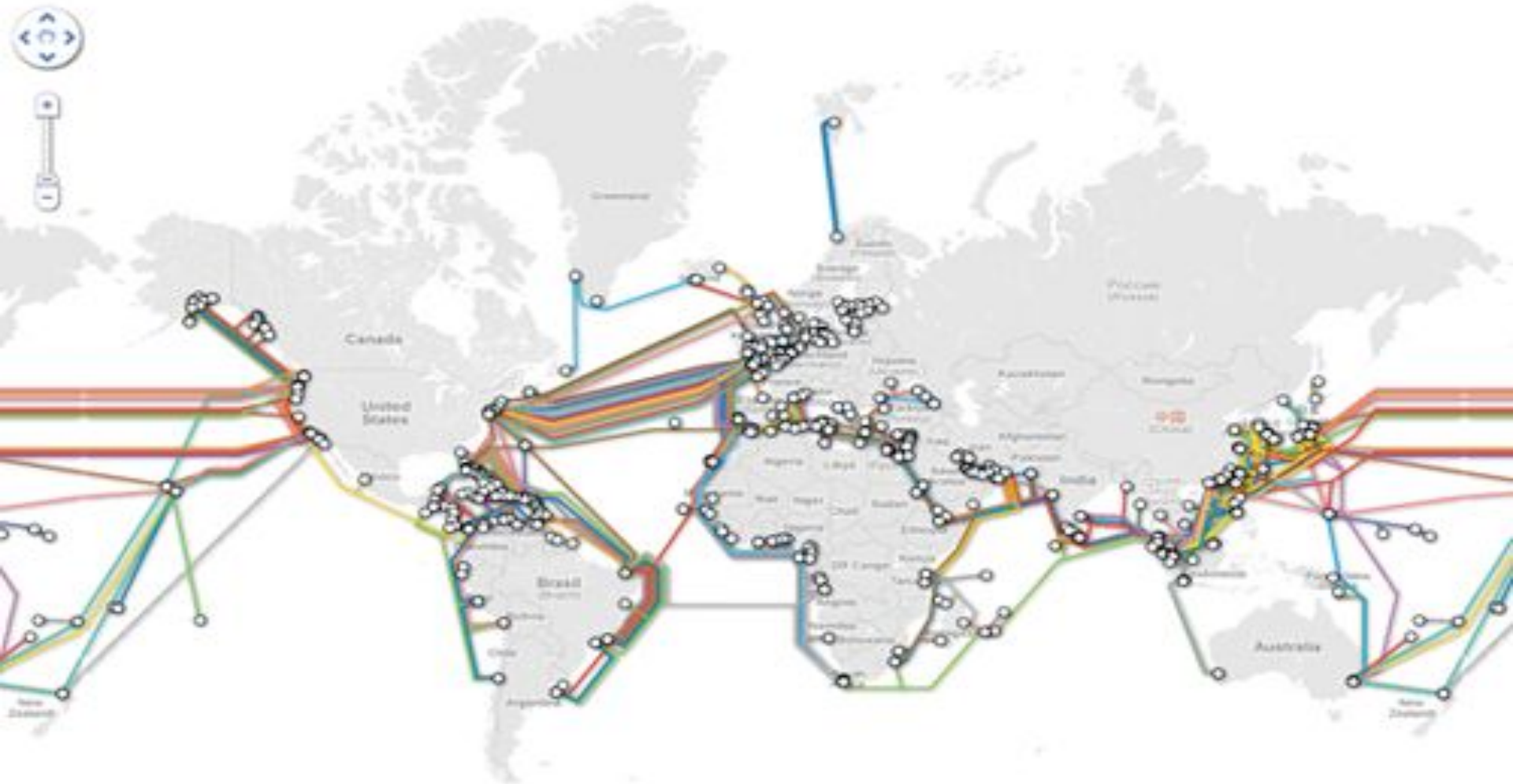
Legend:
● Data Center
● Transit Point

TeleGeography
2011 G. 2011-2012
11100000000
11100000000
11100000000
11100000000
11100000000

ROGERS
Rogers Communications Inc.
100 King Street West
Toronto, ON M5X 1C5
1-800-487-4874
www.rogers.com

② Measuring Globalization

Submarine Cable Map



② Measuring Globalization

Definitions:

- Gross Domestic Product:
The total value of goods and services produced in an economy during a given year.
- The economy consists of:
 - Households.
 - Firms.
 - Financial institutions.
 - Government.

② Measuring Globalization

Simple Calculations: Ratio

- Ratio: one number divided by another.
 - Example: The *total dependency ratio* is the ratio of the sum of the population aged 0-19 and that aged 65+ to the population aged 20-64.

For China, it is about 0.5 nowadays but is predicted to grow to 1.0 by 2075.

- A ratio can also be expressed as a percentage (%) by multiplying it by 100.

② Measuring Globalization

Simple Calculations: Rate

- Rate: is the pace or rhythm at which a magnitude changes over a certain period of time. Typically expressed as a percentage.
 - Example: The *GDP growth rate* in 2012 was 7.8% in China, compared to just 2.2% in the United States.
 - Example: The *inflation rate* in China during 2012 was 2.6%.
 - Nota bene: The “unemployment rate” is more properly called the “*unemployment ratio*.”

② Measuring Globalization

Simple Calculations: Index Number

- Index number: reveals the change in a magnitude between two points in time.

The first of those two points is called the base. The base is typically set at a value of 100.

- Example: If Chinese GDP grew by 7.8% during 2012, then the index number for the end of the year is 107.8.

② Measuring Globalization

Simple Calculations: Proportion

- Proportion: A measure of a part with respect to the whole. Typically expressed as a percentage (%).
 - Example: The income of the one-percent richest Americans was 7.8% of total income in 1970. By 2012, it had grown to 19.3%.

② Measuring Globalization

Large Numbers

In this class, we will use the U.S. convention of numbers:

- 1 million = 1,000,000
- 1 billion = 1,000,000,000
- 1 trillion = 1,000,000,000,000,000,000

3 Understanding the Global Economy

To what extent

1. International trade.
2. Foreign investment.
3. Multinational firms.

have become more important to what we understand nowadays as a global economy?

3 Understanding the Global Economy

International Trade

- Cross-border flows of goods & services.
- Why does it take place? Theory of comparative advantage.
- Free trade may be good overall, but it does generate winners & losers.

3 Understanding the Global Economy

Absolute Advantage Theory

Adam Smith (“The Wealth of Nations”, 1776)

“If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.”

3 Understanding the Global Economy

Relative Advantage Theory

David Ricardo (1819)

Unit Labor Costs	Cloth	Wine
Britain	100	110
Portugal	90	80

③ Understanding the Global Economy

Other Considerations:

- Transportation costs.
- Other costs of trade.
- Scale economies.
- Product differentiation.

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3 Understanding the Global Economy

The Multinational Enterprise (MNE)

- A company with operations in at least two different nation-states.
- A multinational corporation (MNC) is a corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management. Very large multinationals have budgets that exceed those of many small countries.
- Another important term: **foreign direct investment (FDI)** – investments that MNE undertake in order to produce or sell their products and services in multiple countries around the world.

3 Understanding the Global Economy

How Important are MNEs?

- There are 104,000 MNEs in the world.
- They control about 790K subsidiaries.
- 71% of all MNEs are based in rich countries.
- The 500 largest MNEs account for 25% of world product, and 50% of world trade.
- MNEs receive 80% of all payments for technology royalties and fees.

3 Understanding the Global Economy

Multinationals as “Citizens of the World”

“The Tommy Hilfiger Corporation [is] headquartered in Hong Kong, incorporated in the British Virgin Islands, listed on the New York Stock Exchange, owned primarily by international institutional investors, held its annual meeting [of shareholders] in Barbados, sourced production to manufacturers in Mexico and Asia, licensed its name to producers globally, and retailed its ‘classic American clothing’ in Europe and North America.”

Gerald F. Davis, in the Handbook of Economic Sociology, pp. 480-481.

Financial Globalization

Financial globalization & Financial interconnectedness

- Foreign portfolio investment - represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities' issuer by the investor.
- Currency markets:
 - Only 10% are commercial transactions.
 - Discussion Question: What accounts for the other 90%?
- Financial globalization has grown faster than economic globalization.

Aggregate Globalization Indicators

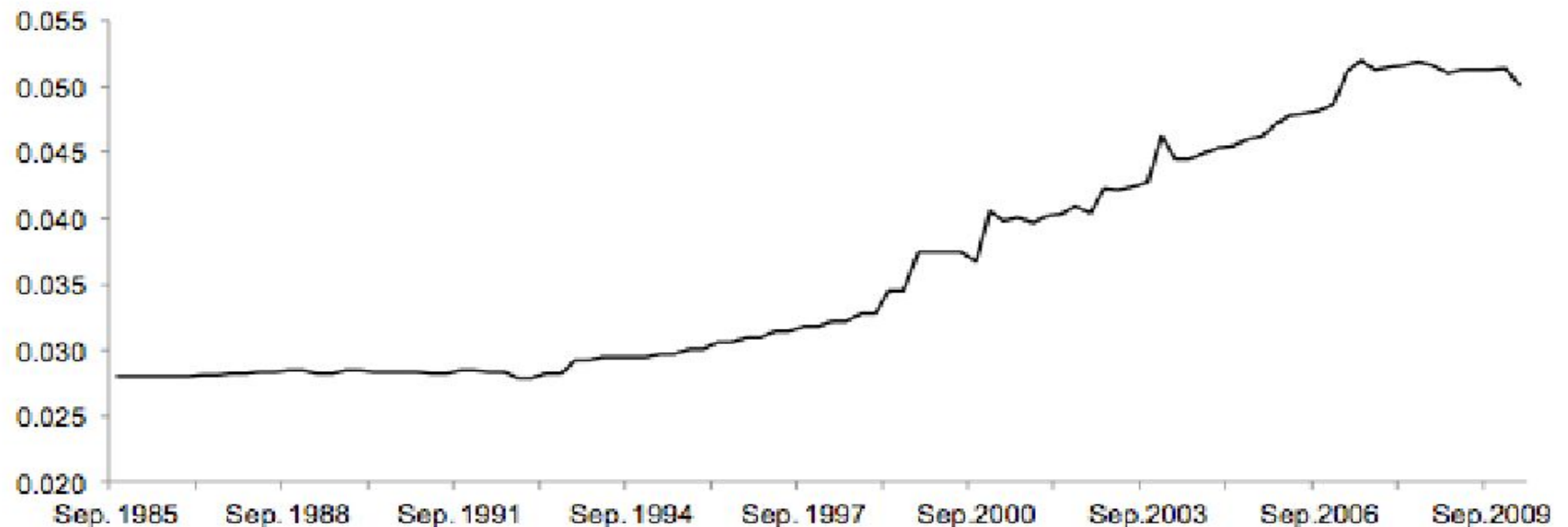
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Financial Globalization

Financial Interconnectedness

Figure 1. Cross-Border Financial Interconnectedness, 1985–2010

(Index of the number of bilateral links between economies, as a share of all possible bilateral links)



Source: Fund staff estimates, based on Hattori and Suda (2007) and banking sector data from the BIS.

<http://www.imf.org/external/np/pp/eng/2010/100410.pdf>

Financial Globalization

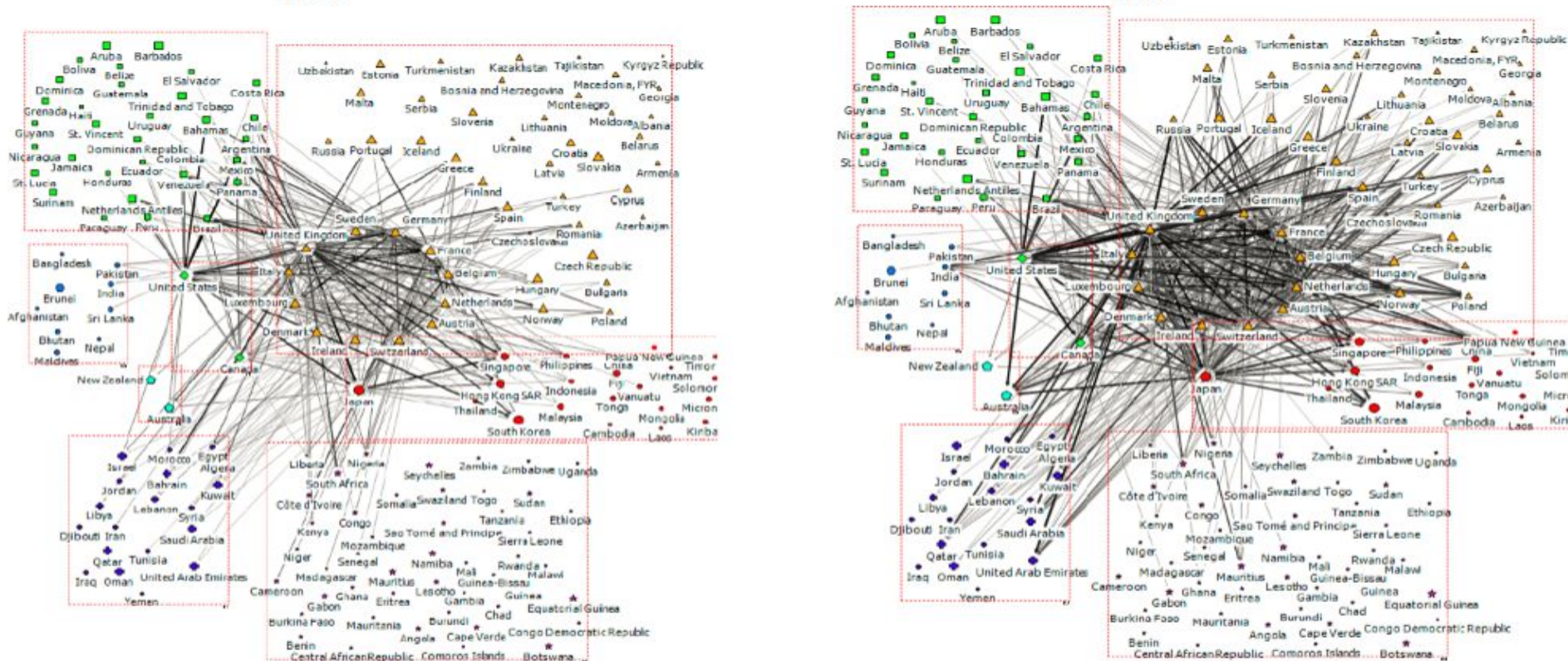
Cross-Border Bank Lending

Figure 3. Network view of cross-border banking, 1980 and 2007

Panel A. Core-periphery

1980

2007

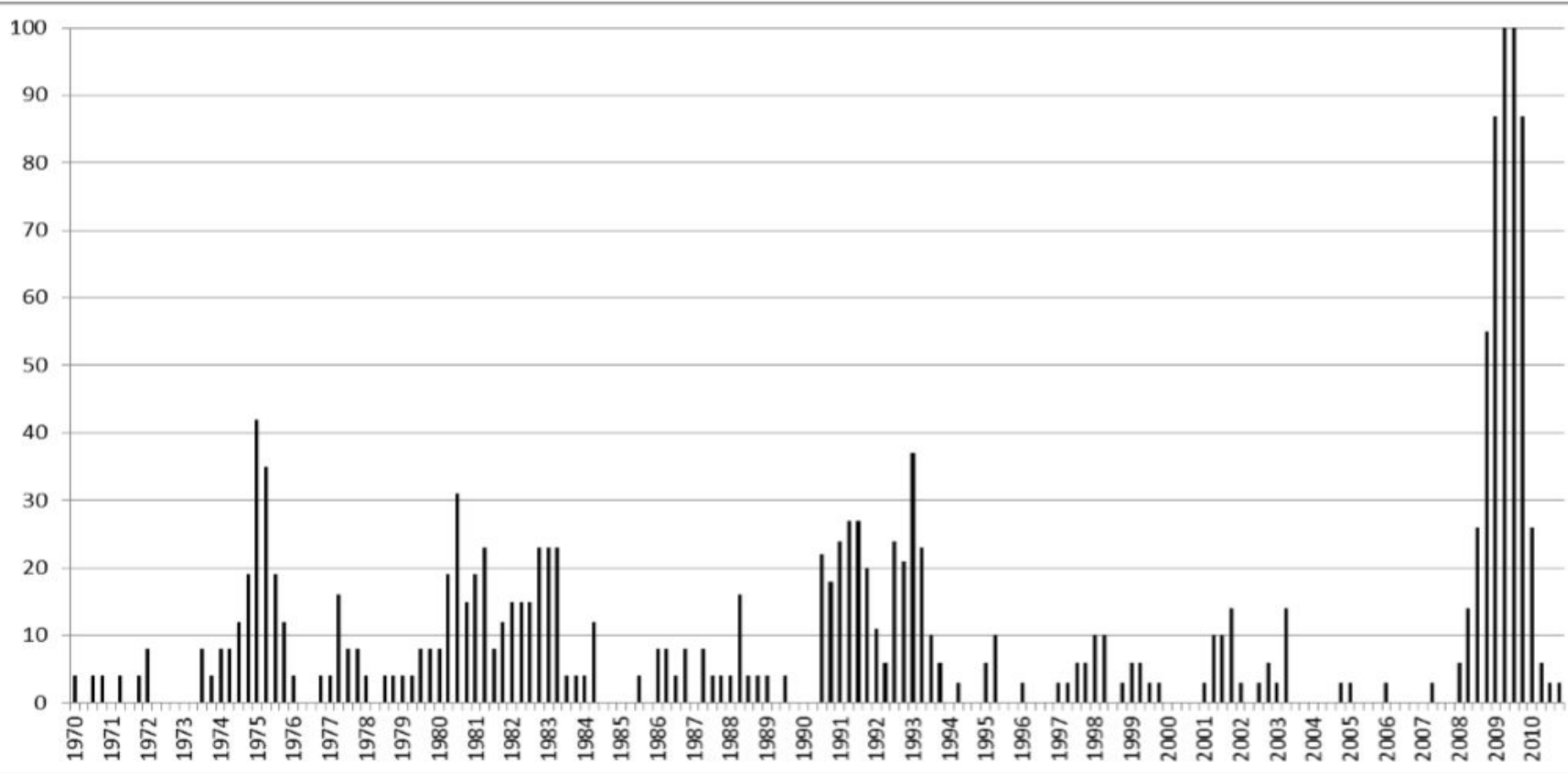


4

Financial Globalization

The Great Recession

Proportion of OECD Countries
with at least two consecutive quarters of GDP decline



Source: Figure 2.2 in Guillen and Ontiveros, *Global Turning Points* (Cambridge Univ Press, 2012).

The Concept of Isomorphism

Isomorphism

- Is the tendency of actors, organizations or other types of entities to become more similar or to adopt common patterns of behavior over time.
- Isomorphism can result from several dynamics, which we shall call “drivers.”

The Concept of Isomorphism

Examples of Isomorphism

- The modern nation-state.
- The ministry of foreign affairs.
- Prohibition of child labor.
- General schooling.
- Tourism promotion offices.
- Newspapers.
- Blue jeans.
- Pop music.

The Concept of Isomorphism

Driver:	Mechanism:	Examples:
Normative	Shared ideologies, worldviews, frameworks, or templates	Neoliberalism, democracy, legal traditions, culture
Coercive	Power, dependency	Hegemonic states, multilateral organizations, multinational firms
Mimetic	Frequency-based imitation to cope with uncertainty and/or secure legitimacy	Bandwagons, fads, fashions
Emulative	Trait-based imitation driven by the legitimacy of the source	Hegemonic states, states considered to be successful or innovative
Competitive	Performance	Markets

The Concept of Isomorphism

- Certain countries are more exposed to isomorphic pressures:
 - Dependent states.
 - States more embedded in trade.
 - Democratic states.
 - States with smaller levels of public spending.
- Discussion question: Why are countries with smaller levels of public spending more exposed?

6 The Paradoxes of Globalization

Three Major Global Paradoxes:

1. Paradox of predictability:

- The global system is highly structured and predictable.
- It is also prone to unpredictable disruptions, crises, and even systemic breakdown.

6 The Paradoxes of Globalization

Three Major Global Paradoxes:

2. Paradox of coupling:

- Tight coupling among system components, especially financially, economically, environmentally, and demographically.
- There is increasing institutional decoupling between adoption dynamics and outcomes.

6 The Paradoxes of Globalization

Three Major Global Paradoxes:

3. Paradox of differentiated convergence:

- Isomorphic pressures towards convergence.
- Differentiation and specialization.

Convergence (Cambridge dictionary): a process in which economies of different countries become more similar to each other.

Economic convergence exists when two or more economies tend to reach a similar level of development and wealth.

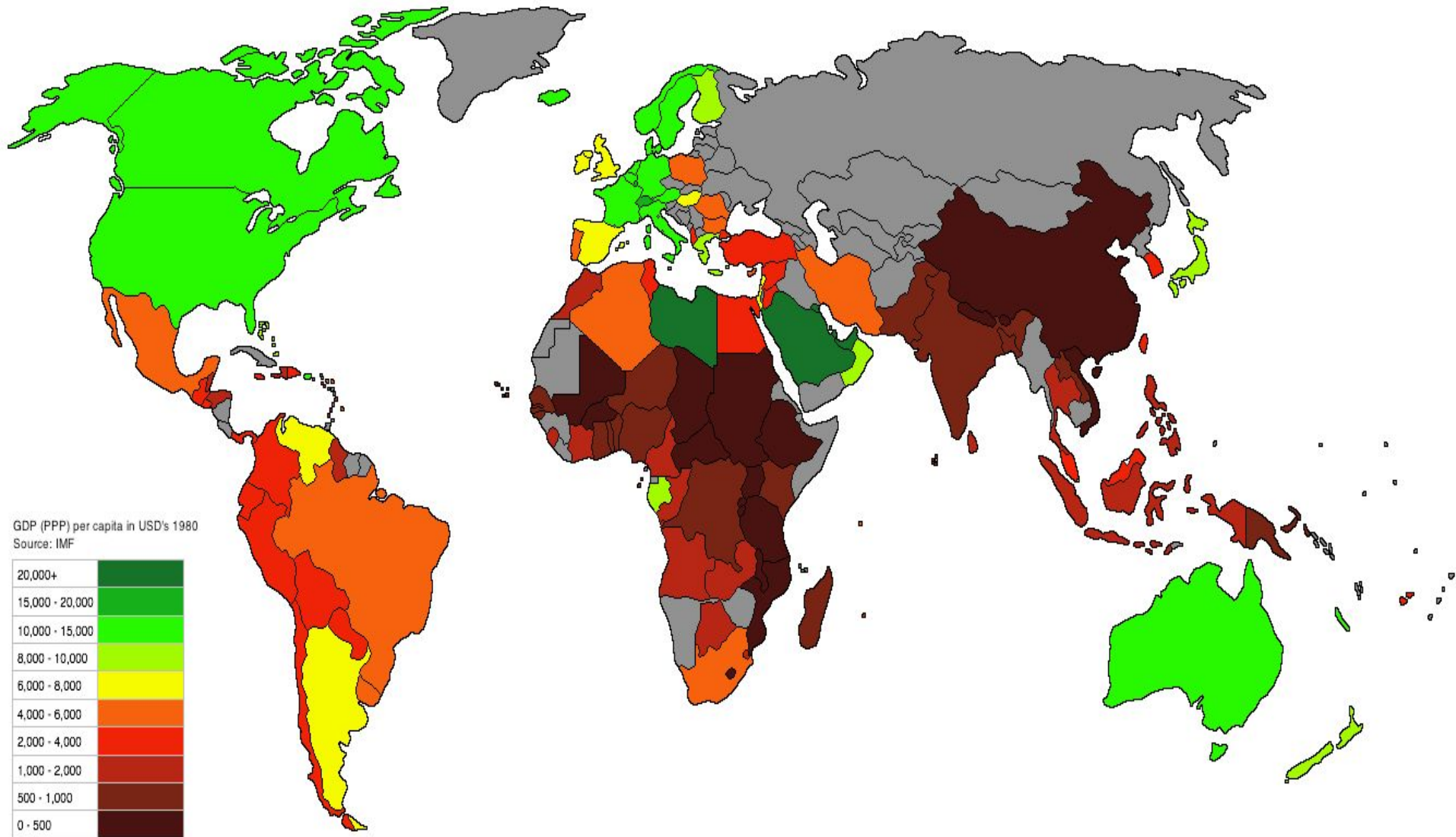
The Effects of Globalization

Discussion Questions:

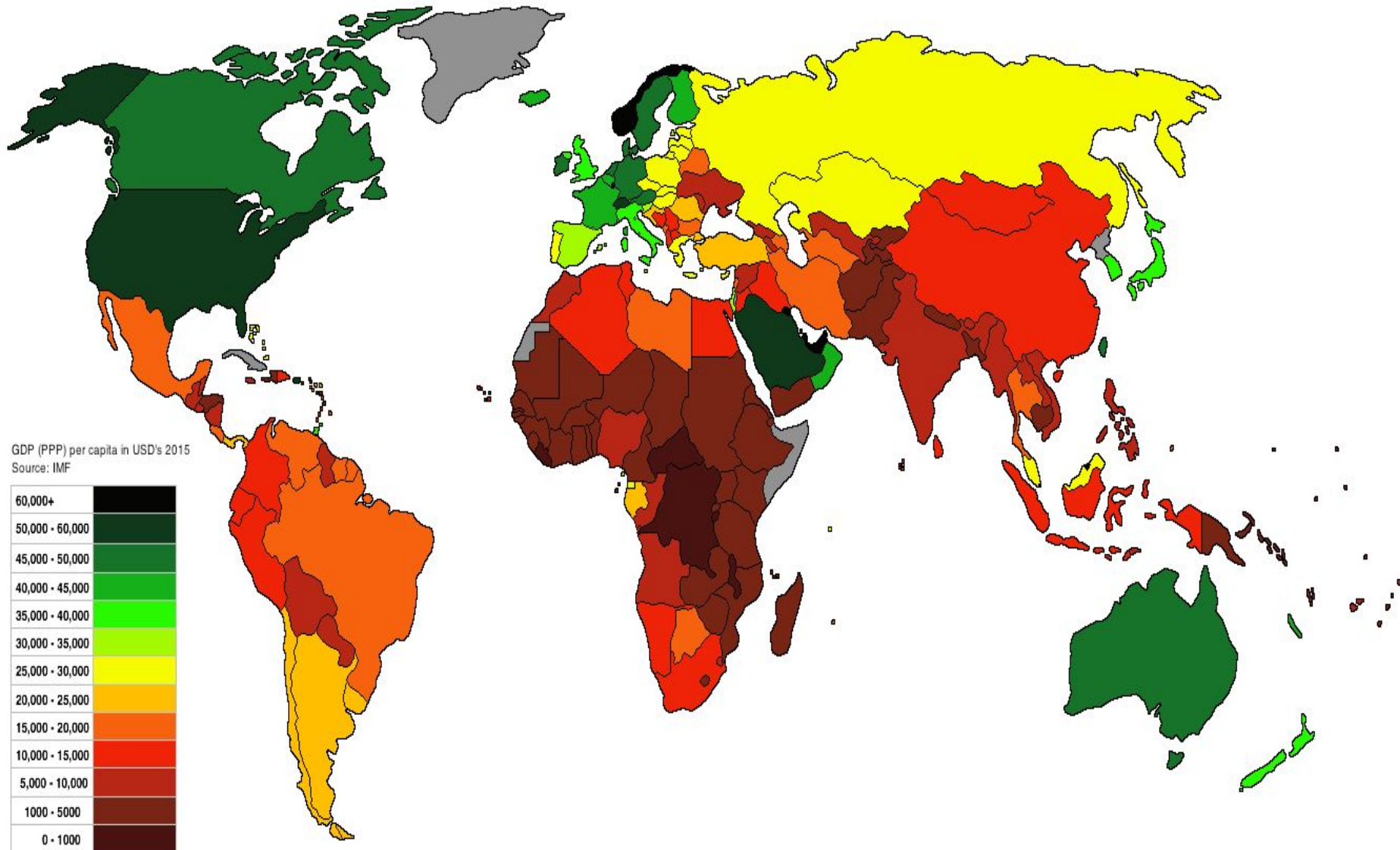
- Is there more or less inequality in the world today compared to, say, 10, 20 or 30 years ago?
- Is globalization responsible for changes in inequality?

7

The Effects of Globalization



The Effects of Globalization



7 The Effects of Globalization

Gini Coefficient:

Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.

Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

The Effects of Globalization

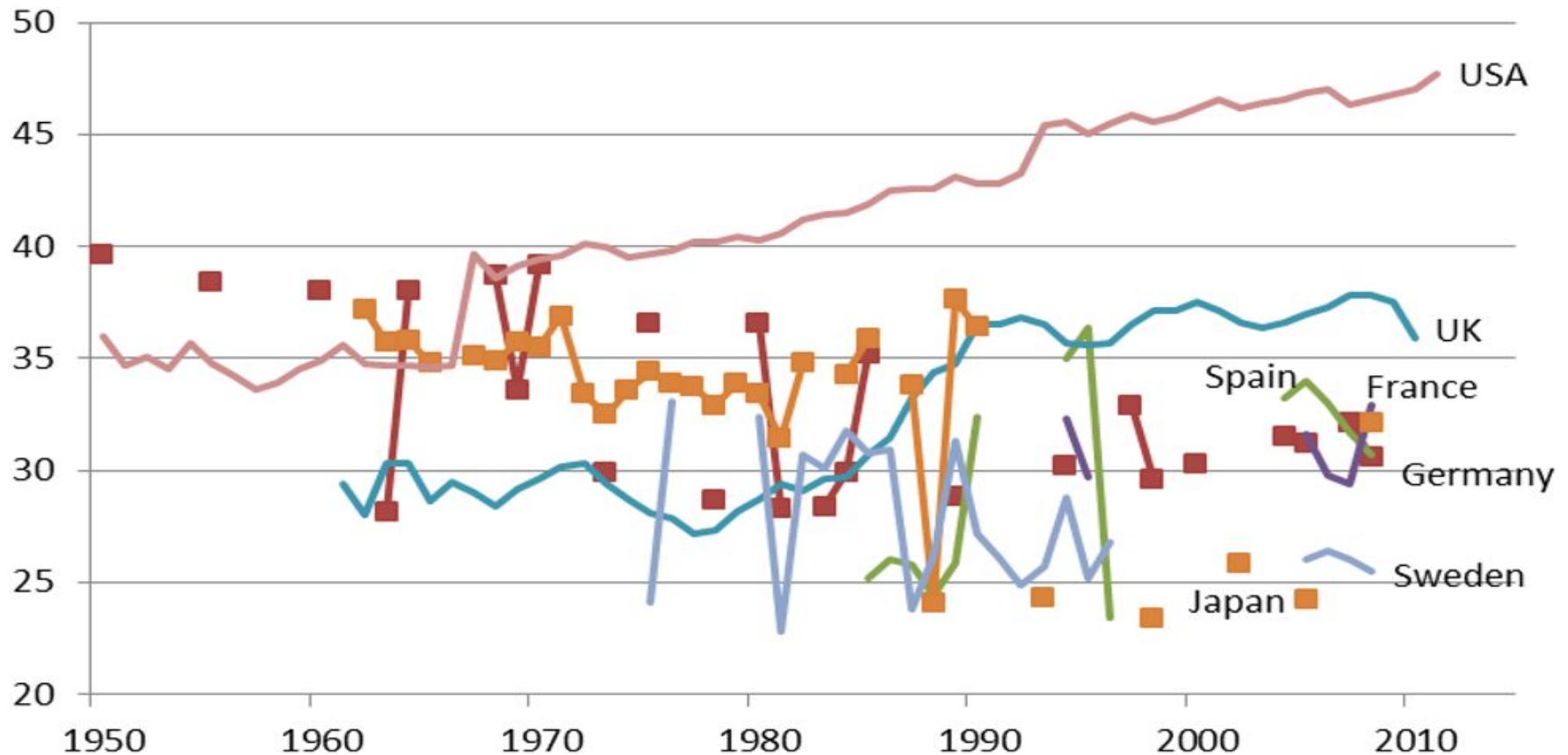
Income Inequality Across Countries



Gini coefficients measured vertically. Mauro F. Guillén. Source: World Development Indicators.

The Effects of Globalization

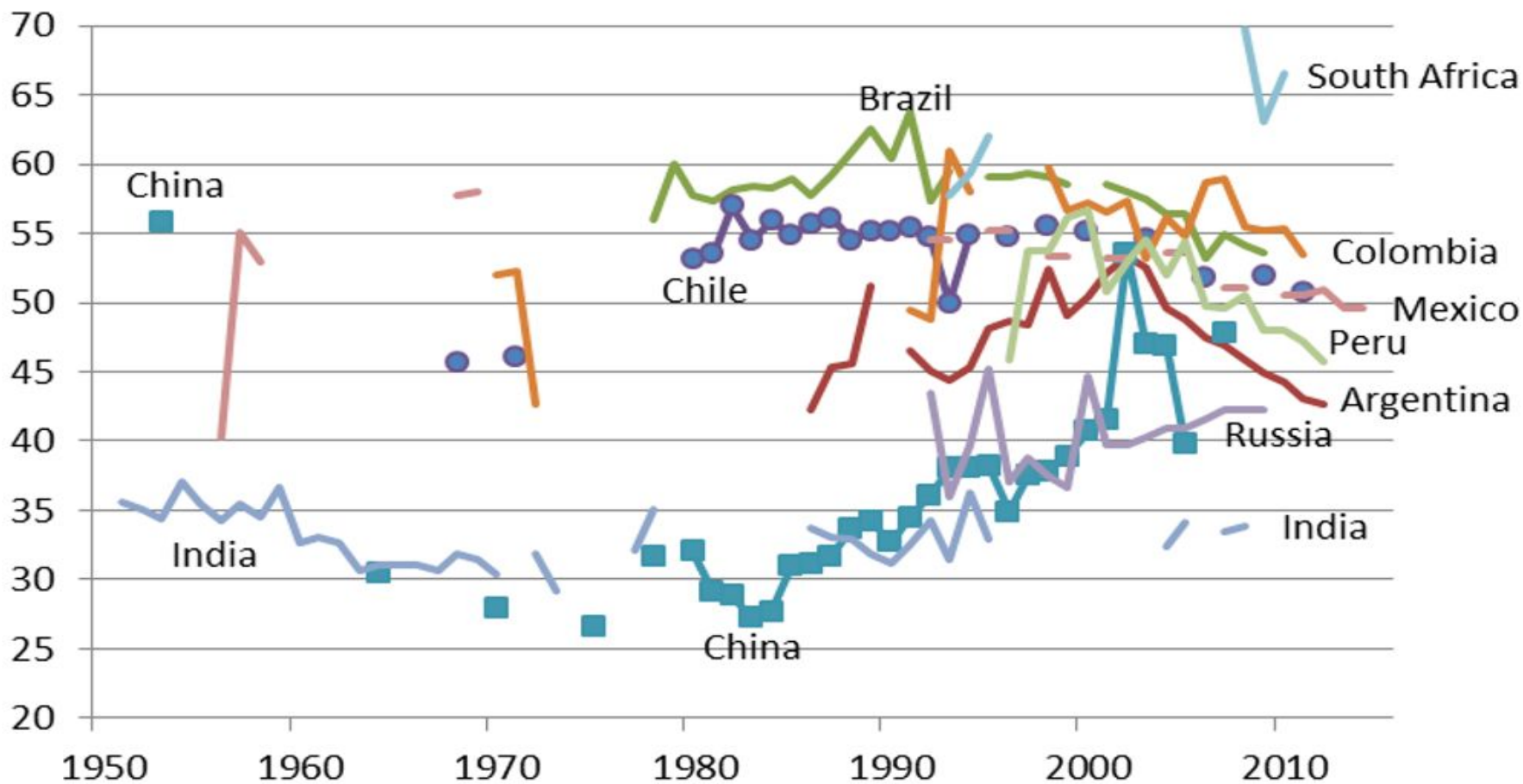
Inequality Within Countries: Income Gini Coefficients: Developed Countries



7

The Effects of Globalization

Inequality Within Countries: Income Gini Coefficients: Developing Countries



The Effects of Globalization

Discussion Questions/Food for Thought Winners & Losers?

• Capital	• Labor
• Educated workers	• Unskilled workers
• Strong states	• Weak states
• Economy ministry	• Labor and social ministry
• Rich countries	• Poor countries

8 Tensions in the Global Landscape

Key Tensions:

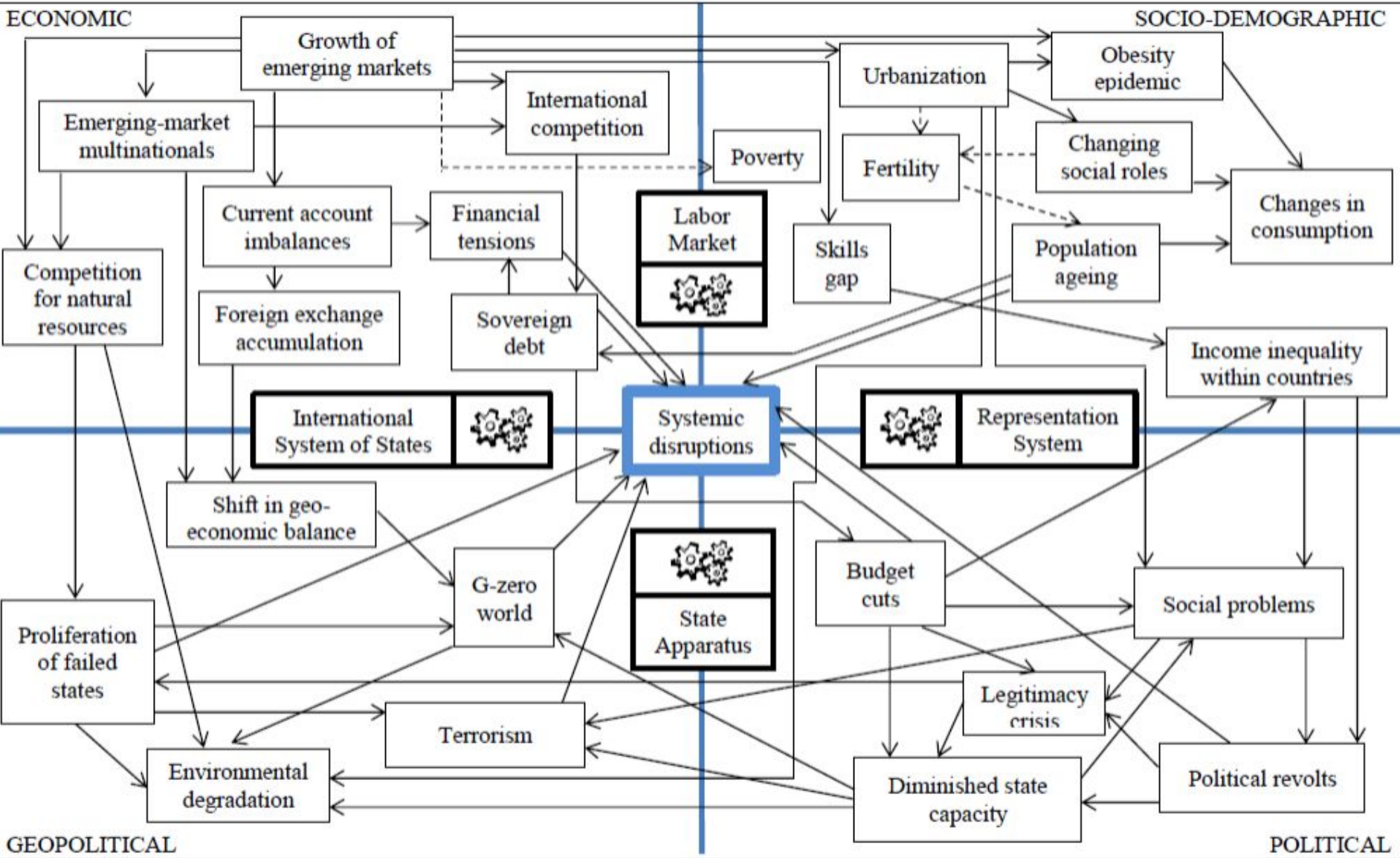
- They occur at the border between the four key subcomponents:
 - Economic (including financial)
 - Socio-Demographic
 - Political
 - Geopolitical

8 Tensions in the Global Landscape

Key Institutions:

- Labor market
- Political representation system
- The state
- The international system of states

Figure 9.1: The Four Institutional Gearboxes Shaping Global Dynamics in the Twenty-First Century



Notes: Solid arrow indicates increase while dotted arrow indicates decrease. For the role of the financial system, see the text.

Suggested Readings

- Mauro F. Guillén and Emilio Ontiveros, Global Turning Points, chapter 1.