Chapter One

Globalization
Opening Case: The Globalization of Health Care

- There is a shortage of radiologists in the United States and demand for their services is growing twice as fast as the rate of graduation.
- Solution to the problem: Send images over the Internet to be interpreted by radiologists in India.
Opening Case: The Globalization of Health Care

• Outsourcing health care is not only limited to radiology; we are beginning to see patients travel internationally for treatments as well as surgery.

• In 2004 some 170,000 foreigners visited India for medical treatments; the number is expected to grow at 15% for the next several years.

• Question: Will demand for American health services soon collapse as work moves offshore to places like India?
What is Globalization?

• The shift toward a more integrated and interdependent world economy
• Two components:
  - The globalization of markets
  - The globalization of production
Globalization of Markets

• The merging of distinctly separate national markets into a global marketplace
  - Falling barriers to cross-border trade have made it easier to sell internationally
  - Tastes and preferences converge onto a global norm
  - Firms offer standardized products worldwide creating a world market
Globalization of Markets

• Difficulties that arise from the globalization of markets
  - Significant differences still exist among national markets
  - Country-specific marketing strategies
  - Varied product mix
Globalization of Markets

• The most global markets are not consumer markets.
• The most global markets are for industrial goods and materials that serve a universal need the world over.
Globalization of Production

- Refers to sourcing of goods and services from locations around the world to take advantage of
  - Differences in cost or quality of the factors of production
    - Labor
    - Land
    - Capital
Globalization of Production

- Historically this has been primarily confined to manufacturing enterprises
- Increasingly companies are taking advantage of modern communications technology, and particularly the Internet, to outsource service activities to low-cost producers in other nations
Globalization of Production

- Outsourcing of productive activities to different suppliers results in the creation of products that are global in nature.
- Impediments to the globalization of production include:
  - Formal and informal barriers to trade
  - Barriers to foreign direct investment
  - Transportation costs
  - Issues associated with economic risk
  - Issues associated with political risk
Globalization has created the need for institutions to help manage, regulate and police the global marketplace

- GATT
- WTO
- IMF
- World bank
- United Nations
Drivers of Globalization

- Two macro factors seem to underlie the trend toward greater globalization
  - Decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II
  - Technological change
Declining Trade and Investment Barriers

- During the 1920s and ‘30s, many of the nation-states of the world erected formidable barriers to international trade and foreign direct investment.
- Advanced industrial nations of the West committed themselves after World War II to removing barriers to the free flow of goods, services, and capital between nations.
Average Tariff Rates on Manufactured Products

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Growth Trends

Figure 1.2: Growth of World Trade, Production and FDI, 1992-2004

- **World Trade**
- **World Production**
- **FDI Outflows**
Affects of Lowering Trade Barriers

Figure 1.1: Volume of World Trade and World Production, 1950-2004

- Index 1950=100
- Total Merchandise Exports
- World Production

Data points:
- 1950: Total Merchandise Exports (100), World Production (100)
- 2002: Total Merchandise Exports (3100), World Production (3100)
The Role of Technology

- Lowering of trade barriers made globalization possible; technology has made it a reality
- Since the end of World War II the world has seen advances in
  - Communication
  - Information processing
  - Transportation technology
Internet Usage Growth

Figure 1.3: Internet Users per 1000 People, 1990-2003

- Japan
- United States
- European Monetary Union
- World
The Changing Demographics of the Global Economy

- World output and trade
- Changing foreign direct investment
- Changing nature of multinationals
The Globalization Debate

**Pro Factors**
- Lower prices for goods and services
- Economic growth stimulation
- Increase in consumer income
- Creates jobs
- Countries specialize in production of goods and services that are produced most efficiently

**Con Factors**
- Destroys manufacturing jobs in wealthy, advanced countries
- Wage rates of unskilled workers in advanced countries declines
- Companies move to countries with fewer labor and environment regulations
- Loss of sovereignty
Managing in the Global Marketplace

• Much of this book is concerned with the challenges of managing an international business (any firm that engages in international trade or investment)

• Managing an international business is different from managing a purely domestic business in four areas:
  - Countries are different
  - Range of problems confronted by a manager in an international business is wider and the problems themselves are more complex than those confronted by a manager in a domestic business
  - An international business must find ways to work within the limits imposed by government intervention in the international trade and investment system
  - International transactions involve converting money into different currencies
Looking Ahead

Chapter 2: National Differences in Political Economy
- Political Systems
- Economic Systems
- Legal Systems
- The Determinates of Economic Development
- Development
- States in Transition
- Managerial Implications