BSB119 **EXAM REVISION**

Lecture 1: Introduction to Global Business

Globalisation: the shift towards a more integrated and interdependent world economy (e.g. GFO/AFC)

International business: any business that has productive activities in two or more countries (multinational enterprise – MNE)

****Globalisation of markets:** the merging of historically distinct and separate national markets into one huge global marketplace

- Implications – tastes and preferences in different nations are converging; more opportunities but also more complex and competitive than a generation ago
- Differences in culture, politics and economies exist between countries and adaptation of products and strategies to local conditions is necessary for international businesses to succeed
- Small domestic markets (e.g. AUS and NZ) – improves communication, wider use of internet, reduction in transport costs, reduction in trade barriers, short-product life-cycles than contribute to intern. global process
- Most global of markets – industrial goods and materials that serve a universal need, e.g. commodities (iron ore, oil, wheat), industrial products (microprocessors, memory chips, software), commercial jet aircraft, financial assets (foreign currency, Eurobonds and futures) – by offering same product worldwide, they enjoy cost-advantages but also help to create a global market (consumer and industry = beneficiaries of global market, and facilitators)
- Example – Coca-Cola's rivalry with PepsiCo is a global market, Ford and Toyota, Boeing and Airbus, Nike and Adidas, Caterpillar and Komatsu, and Samsung and Apple: if firm moves into a nation not currently served by its rivals, many of those rivals are sure to follow to prevent their competitor from gaining an advantage. As firms follow each other, they bring many assets that served them well in these markets including their products, operating strategies, marketing strategies and brand names.

****Globalisation of production**: sourcing goods and services from locations around the globe to take advantage of national differences in the cost of quality of various factors of production, allowing them to compete more effectively against their rivals

- **Factors of production**: components of production such as labour, technology, land and capital
- Companies hope to lower overall cost structure or improve quality or functionality of their product offering, allowing to compete more effectively
- Firms are better able to respond to international customer demand due to improvements in transportation technology e.g. jet transport; temperature controlled containerised shipping and co-ordinated ship-rail truck systems (attempting to create and maintain comp. advantage)
- Example – Boeing's 777 and 787 commercial aircrafts (different components from UK, France, Canada, Sweden); Komatsu mother/daughter plant strategy to exploit endowments
    - Careful not to push the globalisation of production too far – substantial impediments (formal and informal barriers to trade between countries, barriers to FDI, transportation and supply chain management costs, and issues associated with economic and political risk) make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe

***Globalisation of institutions**: needed to help manage, regulate and police the global marketplace and promote establishment of multinational treaties to govern the global business system (support int. business environment)

Environmental factors facilitating globalisation

1. **Liberalisation**: reduction in barriers to trade and foreign investment (cooperation among nations: general agreement on tariffs and trade (GATT), world trade organisation (WTO) & regional trade agreements (RTAs))
2. **Political environment**: changing ideologies, privatisation and emerging market economies
3. **Rising disposable income**: economic development and demand for greater variety of products
4. **Technological change**: transportation, communication, information processing and the internet
5. **Virtual organisation**: virtual workforce (global outsourcing)

Lecture 5: Business Environments – Trade & Investment

Free Trade vs Protectionism (benefits of free trade)

Protectionism: emphasises the importance of government intervention in international trade and investment

- To protect national interest by restricting the inflow and influence of foreign goods and businesses

Free trade: emphasises the absence of barriers to the free flow of goods and services between countries

- Trade promotes efficiency, competition and creates economic growth and national wealth
- **Static benefits**: IB and consumers can locate or source production in countries where products can be produced most efficiently
- **Dynamic benefits**: encourages investment, enhance cooperation, contributes to productivity improvements and higher GDP growth

**Motives for Government Intervention in Trade (political and economic motives)

- To protect the interests of politically important groups and the well-being of local citizens

Political motives (protect interests of certain groups within a nation (producers) often at expense of others (consumers)):

- Protection of domestic jobs and industries – e.g. Australian tariffs on foreign cars (high as 50% in 1980s)
- National security (key industries, security encryption) – e.g. Huawei barred from NBN rollout (CEO ex-army)
- Retaliation against actions of other trading partners – e.g. US threatened China with imposition of 100% tariff on Chinese goods if did not start enforcing intellectual property laws
- Protection of consumer welfare and safety – e.g. EU's ban on hormone-treated beef; Australia's biosecurity (quarantine) regulations
- Maintain cultural distinctiveness – e.g. broadcasting content (local TV channels, foreign content restriction)
- Foreign regulations policy – e.g. preferential treatment to trading partner; 'punishment' (Australia's sanction on Russia during 2014 Ukraine crisis)
- Protecting social and environmental welfare – e.g. regulations to protect workers' human rights, work conditions, etc.; regulations to control carbon emissions and global warming
- Government revenue – e.g. tariff (tax)

Economic motives (concerned with boosting overall wealth of a nation (benefit all, producers and consumers)):

- **Infant industry argument**: calls for the protection of an emerging industry until it becomes efficient enough to compete in the world market
    - High protective barriers used to support and encourage a growing manufacturing industry
    - Argument in favour: many developing economies have a potential comparative advantage in manufacturing, but, new industries cannot compete with existing ones in developed countries
        - E.g. post-war success of South Korea's shipbuilding industry
    - Criticisms: protection fosters inefficiency and dependence; government "picking winners"; rent-seeking opportunity cost of government funds, etc.
        - E.g. failure of Indonesia's car industry and Brazil's computing industry
- **Strategic trade policy**: government policy aimed at helping the country's domestic firms gain first-mover advantages or overcome the first-mover advantages of foreign firms in global markets that will profitably support only a few firms
    - Industries where the world may profitably support only a few competitors, government intervention may allow local firms to gain first-mover advantages (or overcome first-mover advantages of foreign firms)
        - E.g. Airbus had less than 5% market share in 1970s, but grew to 45% by 2010 through subsidies from the governments of Great Britain, France, Germany and Spain
    - Criticisms: governments are not always good at picking winners; may lead to dependency on governments if subsidised firms cannot compete in the global markets; potential costs to taxpayers

Lecture 6: Business Environments – Political

Political Systems, Ideologies, Collectivism vs. Individualism, Totalitarianism vs. Democracy

- **Economic system:** the set of arrangements and institutions by which the decisions are made on basic economic questions of what, how and for whom to produce
- **Political system**: the system of government in a nation

Ideology: a set of values and beliefs that justifies certain behaviours and guides economic and political actions

- Important part of the political environment is the dominant ideology
    - Systematic and integrated body of constructs, theories and aims that constitute a socio-political program
    - MNCs will be more comfortable operating in a political environment similar to that of their home country-
- Socialism: political system that believes in state ownership of a country's means of production, distribution an exchange so that all can benefit
    - Emphasis: common good (society > individual)
    - Equal outcome (social equality)
- Liberalism:
    - Emphasis: individual rationality (individual reason + liberty)
    - Equal opportunity
- Conservatism:
    - Emphasis: support for tradition, country, authority, duty and hierarchy
    - Individual security and identity require social order and stability

Collectivism: political system that stresses the primacy of collective goals over individual goals
- Needs of society generally viewed being more important than individual freedom/goals
- Collective goals > individual goals

Individualism: the philosophy that an individual should have freedom in his/her economic and political pursuits
- Interests of the individual > interests of the state

Totalitarianism: political system in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties
- Single party, individual or group monopolises political power and neither recognises nor permits opposition
- Various forms exist ('communist', 'theocratic', 'tribal' and 'right-wing' totalitarianism)

Democracy: political system in which government is by the people, exercised either directly or through elected representatives
- Allows for the involvement of citizens in the decision-making process
- Modern democratic states are 'representative democracies' (citizens elect gov. representat.s.)

- *Democracy* and *Individualism* go hand in hand; as do communist version of *Collectivism* and *Totalitarianism*

**Types of Political Risks and Their Potential Impact on IB (ownership, operational and transfer risks)

Political Risk: the likelihood that political forces and events will cause drastic changes in a country's business environment that adversely affect the profit and other goals of a business enterprise
- These risks may occur at the macro-political level and affect all businesses in the country, or they may be forces or events that arise that affect just a particular business or sector of the economy

Types of Political Risk for MNCs:

1) **Operational risk**: the risk that government actions will impose counterproductive constraints on how business wishes to operate
    - Host government may permit foreign investment conditional on certain requirements met
    - E.g. employing a no. of local employees, sourcing local resources and products, requirements to manufacture for certain export markets only, price controls, financing restrictions, etc.
2) **Transfer risk**: the risk that government actions will limit the transfer of resources and funds across international borders