MGMT2101 Notes

Week 1 Globalisation & International Business

1. **What differentiates International and Domestic Business?**
   a. Environmental Dynamics (macro)
      - Currency, inflation, interest rates, accounting practices, cultures, social customs, laws, political stability

   b. Operational nature (micro) *hierarchy of managers*
      - Communication, coordination, motivation, differences in organisational principles and management philosophies

2. **Globalisation**

Refers to shift from self-contained national economy toward a more integrated and interdependent world economy.

- ✓ Personal contact: spread of human civilisation, artefacts, institutions, patterns of living, information and knowledge
- ✓ Emerging countries are Brazil, Russia, India & China (BRIC)

3. **Reasons for globalisation of markets**
   i. Falling trade barriers makes it easier to sell globally
   ii. Consumers' tastes and preferences and converging; iPhone
   iii. Firms offer same basic product worldwide

   E.g. If there is shortage of radiologists in USA, they can send images to radiologists in India

4. **Lowering natural and institutional barriers to trade**
   a. Technology reduces transport and communication costs
   b. Policy:
      process where state lifts restrictions on some activities
      - Trade liberalisation: reduction of restrictions on barriers on free exchange of goods between nations.
      - Investment liberalisation: lower barriers to foreign investment
      - World Trade Agreement

5. **Globalisation of Production**

Sourcing of goods and services from locations around the world to take advantage of labour, land, capital, technology.

Challenges for MNEs:
- Diverse societies (geography, govt., religion, linguistic, income)
- Rapid pace of change (Internet, technology)
- Demanding markets
- Cognitive insularity (isolation from direct observation at home/office)
  ↳ ignorance in other cultures
- Legacy mindsets (Harry Warner (CEO Warner Brothers) said "Who wants to hear actors talk?")
  - Before silent films. Overlooked future).

6. Emergence of global institutions – economic and political

Globalisation has created the need for companies to manage, regulate and police the global marketplace.

- WTO: only international organisation dealing with the global rules of trade
- IMF (International Monetary Fund): org. to promote economic growth e.t.c.
- World bank: development; how developing countries integrate to global market
- United Nations: integrating world economy

7. Three waves of globalisation

WAVE	TRIGGERED BY/DEFINITION
1. 1870 - 1914	i. Second wave of Industrial revolution (steam, electricity) ii. Falling transport costs (switch from sail to steamships) iii. Reduction in tariff barriers
2. 1945 - 1980	▪ By 1980 trade between developed countries in manufactured goods substantially freed of barriers. ▪ For agriculture and manufacture, developing countries faced severe barriers.
3. 1980 +	Different to previous waves: ▪ LDC (less developed countries) entered global markets ▪ Capital movements become especially significant ▪ Globalisation of services Why? ▪ Technology omnipotence (unlimited power) ▪ Tariffs on manufacture in rich countries decreased ▪ Trade liberalisation in LDCs ▪ Liberalisation of capital markets any process where state lifts restrictions market where buyers/sellers trade financial securities like bonds, stocks etc. mostly long term

- pop. size
- buying power
- demographic
- cultural norms

8. How has the world output and world trade changed?

- In 1960 the US accounted for over 40% of world economic activity. In 2008, this dropped to 20%. By 2020, developing countries would account for 60% of this.

- China & India are the world's 2 fastest growing economy who have a 4 stories in 1.
  1. megamarket
  2. cost efficiency platforms (low wage)
  3. Innovation platform (largest pools of scientists & engineers)
  4. Launching pads for new global competitors
     - Huawei
     - Lenovo (leading PC)
     - Haier
     - Chery (car)

     China's leading company

9. What does globalisation mean for firms?

Benefits

a) Lower barriers to trade

View the world as a market, however, need to ensure benefits reach the poor.

b) Technological change

- Lower transport costs; disperse products in separate geographic locations.
- communication network
- Global online market for consumer products.

Affect jobs?

- Destroy manufacture jobs in advanced countries.
- countries specialise in what they do best then trade.