MGMT2101 Lecture One

International vs. domestic business

- Significantly different due to differences in:
    - Environmental dynamics: currency, inflation, interest rates, accounting practices, cultures, social customs, laws, political stability
    - Operational nature: Communication, coordination, motivation, differences in organizational principles and management philosophies

Globalisation

- What is globalisation
    - The world is moving away from self-contained national economies toward an interdependent, integrated global economic system
    - Globalisation refers to the shift toward a more integrated and interdependent world economy
    - Catch all term: it describes almost all the major economic, political and cultural changes in the modern world
    - A somewhat narrower focus of this concept is on the a) exchange b)) growing independence and linkages between national economies and c) the emergence of an integrated global economy
    - Globalisation is a product of a complex historical process – its analysis requires a historical approach
- What is globalisation of markets?
    - Historically distinct and separate national markets are merging
    - It no longer makes sense to talk about the “German market” or the “American market"
    - Instead, there is the “global market"
        - Falling trade barriers make it easier to sell glboally
        - For some goods, consumers’ tastes and preferences are converging
        - Firms offer the same basic products worldwide
- Since 1990’s globalisation has been in full swing and Globalization is increased both dispersal and integration of
    - Markets: many untapped markets have opened up because of liberalisation and spread of global media
    - Production: cheaper factors of production
    - Technology: technology has been a great enabler
- Lowering of both natural and institutional barriers to trade
    - Technology reduces transport and communication costs
        - Cheaper, more efficient transport
        - Cheaper communications
    - Policy:
        - Lowering of tariffs, various non-tariff barriers to trade in goods and services (trade liberalisation)
        - Lowering of barriers to foregin investment (investment liberalisation) and labour movements

        - Institutionalisation of global agreements and
- Globalisation 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: labour, land, capital, technology
- Global market integration
    - Not only goods, but even services are becoming (international) traded or tradeable
        - Education (e.g. Australian exports of education to foreign students)
        - Medical and consultancy services
        - Sales and technical services
    - Factors – capital, labour are internationally traded
        - Foreign institutional and direct investment
        - Labour movements
        - International markets in technology
- The emergence of modern global economy
    - Globalisation started in earnest around 1500, with the discovery by European sailors of naval routes to asia and the discovery of the Americas following Columbus, and subsequent expansion of global trade
        - Portuguese, followed by spansih, dutch, british
    - Amsterdam – the world's financial and commercial centre around 1700 – the first modern stock exchange in amersterdam – during 1600s
    - During this era, global trade was growing but quite limited:
        - European imports mostly precious metals, pottery, ceramics and porcelain (from china) silk and cotton textiles, handicrafts, brassware, (mainly from india) expensive spicesm tea and coffee (from asia) sugar and tobacco (from America)
        - Monopolies (enforced by military/naval power), government restrictions (tariffs, other barriers) limited market integration and price convergence

Multinational companies

- The multinational company appeared sometime in the 19th century, under industrial capitalisation. Helped by major technological advances including
    - Steamships, locomotives, telephony, electricy
        - Faster means of shipping and transportation
        - Better means of communication
        - Development of the factory system
        - Larger, more intensive manufacturing processes
        - Better storage techniques
- Accelerated MNCs internationalisation, while new advertising capabilities helped MNCs expand market shares
- Global expansion by companies almost exclusively from the US and some western European nations

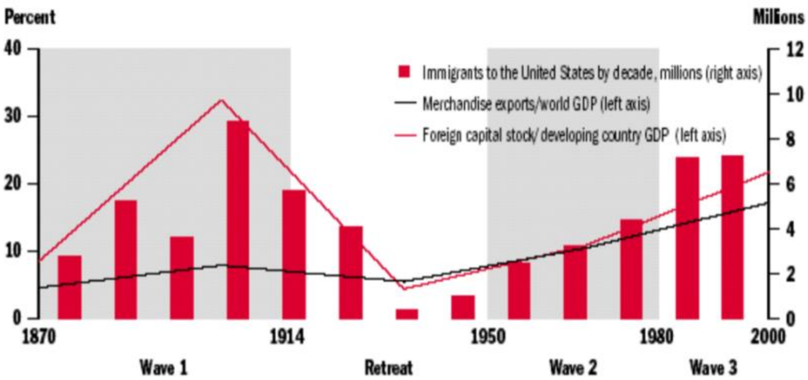
- 60% of corporation’s investments went to Latin American, asia, Africa and the middle east

Evolution of modern global competition

- Before the end of the 19th century, international competitors were merchants and traders of different nationalities
- Later, international trade increasingly carried on by companies through their own offices in foreign lands
- Industrial enterprises expanded in foreign countries first by integrating forward and, then by moving backward

Three waves of globalisation

Figure 1.1 Three waves of globalization



The first wave of globalisation 1870-1914

- Globalisation from 1870 to 1914, was triggered by a combination of
  - Industrial revolution (2nd wave)
  - Falling transport costs, e.g. the switch from sail to steamships, and reductions in tariff barriers
- Huge opportunities for manufactures
- Exports as a share of world income nearly doubled to about 8%

The second wave of globalisation 1945-80

- The founding of the united nations
- Persuaded governments to cooperate and reduce trade barriers
- Trade liberalisation took place, but was selective
  - By 1980 trade between developed countries in manufactured goods substantially freed of barriers
- For agriculture and manufactures, developing countries faced severe barriers

The third wave of globalisation: 1980 +

- Different to previous waves:
    - LDCs entered global markets
    - Capital movements have become especially significant
    - Globalisation of services
    - Spatially slippery
- Why?
    - Digital technology omnipotence
    - Tariffs on manufacturers in rich countries went down
    - Trade liberalisation in LCDs
    - Liberalisation of capital markets

How has world output and world trade changed?

- In 1960, the US accounted for over 40% of world economic activity
- By 2008 the United States accounted for about 20% of world economic activity
- The share of world output accounted for by developing nations is rising and is expected to account for more than 60% of world economic activity by 2020

Winners and losers…

- Usually some owners of factors gain or lose
- Income/wealth distribution – both within countries and among countries – can change
- Incentives increase to establish ownership over factors that become more valuable
- Intellectual property rights issues; conflicts and wars

What does globalisation mean for firms?

- Lower barriers to trade and investment mean firms can
    - View the world, rather than a single country, as their market
    - Base production in the optimal location for that activity
- Technological change means
    - Lower transportation costs - firms can disperse production to economical, geographically separate locations
    - Low cost global communications networks - help create an electronic global marketplace
    - Low cost transportation - help create global markets
    - Global media - create a worldwide culture, and a global market for consumer products

Is globalisation a folly?

- Neither new nor a folly. The world economy was quite integrated at the end of the 19th century
- Non tariff barriers were lower than they are today
- Capital and money movements were freer under the gold standard
- Movement of people was much freer – passports rarely needed and citizenship was granted easily

How does globalisation affect jobs and income?

- Critics argue that falling barriers to trade are destroying manufacturing jobs in advanced countries
- Supporters contend that the benefits of this trend outweigh the costs
    - Countries will specialise in what they do most efficiently and trade for other goods - and all countries will benefit