MGMT1101 Complete Subject Notes

Global Business Environment

Week 1 | **Chapter 1: Globalisation**

INTRODUCTION

- international business is the main facilitator of globalisation
- barriers to cross-border trade and investment are declining
- advances in transportation and telecommunications technology are shrinking perceived distances
- national economies are merging into an interdependent, integrated global economic system
- managers need to balance the risks of embracing globalisation against the associated risks as evidenced by the logistical nightmare of Boeing's 787
- the volume of goods, services and investments crossing national borders has expanded faster than world output consistently for more than half a century
- 'kicking away the ladder' refers to developed countries embracing trade agreements and therefore preventing them from using the very same development strategies (tariff protection and subsidies) that developed countries used in order to prosper ~ H Chang
- global interaction is becoming more individualised rather than just being B2B because of the internet being able to penetrate more regions of the world
- the GFC is the best example of how we live in one economic world
- many services no longer need to be performed where they are delivered thanks to advances in information technology
- **outsourcing** — tasks that were previously performed in-house are now purchased from another firm
- **offshoring** — a form of outsourcing; it means that a task previously performed in one country is now being undertaken abroad
- increasingly, individuals in developing countries have the same opportunities as others

1.1 WHAT IS GLOBALISATION?

- **globalisation** — the shift towards a more integrated and interdependent world economy
- the **globalisation of markets** is the merging of historically distinct and separate national markets into one huge global marketplace
    - tastes and preferences are converging to one global norm, creating a global market e.g. Coca-Cola or Prada
    - markets for industrial products or materials such as commodities or technological products are the most globalised markets
- in many markets, the same firms frequently confront each other as competitors in many nations e.g. Nike and Adidas
- small firms can also enjoy success in the global economy
    - 44% of all goods exporters are small firms (less than 20 employees)
    - in Germany, 98% of small to medium sized enterprises have exposure to international markets
- despite this, significant differences still exist among national markets and require companies to customise strategies and products
- the **globalisation of production** is sourcing goods and services from locations around the globe to take advantage of national differences in the cost and quality of various factors of production
- **factors of production** are components of production such as land, labour, technology and capital
- the outsourcing of productive activities to different international suppliers and locations results in the creation of products that are global in nature

1.2 THE EMERGENCE OF GLOBAL INSTITUTIONS

- over the past 60+ years, a number of important global institutions have been created to help regulate, manage and police the global business marketplace and to promote multinational treaties
- **General Agreement on Tariffs and Trade (GATT)** was an international treaty that committed signatories to lowering barriers to the free flow of goods across national borders; a predecessor to the WTO

- the **World Trade Organisation (WTO)** is the organisation that succeeded the GATT and now acts to police the world trading system
  - the WTO is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states
  - 161 nations, accounts for 97% of world trade (2015)
  - promotes lowering of barriers to cross-border trade and investment
- the **International Monetary Fund (IMF)** is the international institution set up to maintain order in the international monetary system
  - the lender of last resort to nations whose economies are in turmoil or whose currencies are losing value against those of other nations
  - criticised for imposing policies in exchange for money and thus usurping the sovereignty of nation-states
- the **World Bank** is the international organisation set up to promote economic development, primarily by offering low interest loans to governments of poorer nations
  - IMF and WB created in 1944 to prevent the trade wards of the 30s and 20s from happening again
  - another criticism is that both of their decision making structures have failed to reflect the shifting economy power towards emerging economies, particularly the BRIC group
- **BRIC** is Brazil, Russia, Indonesia and China; a group of emerging economic powers in the global economy
- the **United Nations (UN)** is an international organisation made up of 193 countries charged with keeping international peace, developing cooperation between nations and promoting human rights
- the **UN Conference on Trade and Development (UNCTAD)** is a UN body that promotes the integration of developing countries into the world economy as a means of attaining sustainable economic development
- the **Group of Twenty (G20)** is an international forum comprising the government representatives of the G8 and other economies (including the BRICs) as a reflection of their rising global economic and political power
  - represents 90% of global GDP and 80% of international trade
- the **Asian Infrastructure Investment Bank (AIIB)** is a multilateral development bank backed by china focusing on funding infrastructure in Asia

DRIVERS OF GLOBALISATION

- the actions of consumers and international business facilitate globalisation, however the two macro trends that underlie globalisation are:

1. the decline in barriers to the free flow of goods, services and capital since WWII
2. technological change, particularly the dramatic ICT and transportation technology developments in recent years

Declining Trade and Investment Barriers

- **international trade** occurs when a firm exports goods or services to buyers in another country
- **foreign direct investment** is when a firm invests resources in business activities outside its home country, giving it some control over those activities
- tariffs traditionally limited the imports of manufactured goods to protect domestic industries from foreign competition
  - this caused 'beggar-thy-neighbour' retaliatory trade policies as trade barriers were progressively raised
- the GATT caused average tariff rates for non-agricultural goods to drop to around 4%
- countries have also been progressively removing restrictions to FDI, which allows firms to locate their production at the optimal location for that activity
- the value of international trade in services also has grown and matched the growth rates of merchandise trade
- advances in services trade is being driven by advances in ICT that allow outsourcing
- more production is destined for export markets and not just domestic markets
- more firms are specialising production to drive down costs and increase product quality
- nations are becoming increasingly interdependent as economies become more intertwined
- the world has become wealthier since 1950 (increased trade = economic growth)
- FDI has played an increasing role in the global economy
  - **FDI FLOW** = the amount of FDI undertaken over a given time
  - **FDI STOCK** = the total accumulated value of foreign-owned assets at a given time

- **FDI OUTFLOW** = the flow of FDI out of a country
- **FDI INFLOW** = the flow of FDI into a country

- FDI tends to be more volatile, but in 2014 it reached $1.2 trillion USD
- FDI consistently grew more rapidly than trade and GDP leading up to the GFC due to reduced restrictions favouring free market economies
  - business firms still feared protectionist pressures, FDI was seen was a way of 'jumping over' trade barriers
  - increase in FDI was driven by political and economic changes that have been occurring in many of the world's developing nations (privatisation, deregulation, opening up to foreign investment)
  - globalisation of the world economy had positive impact on FDI
- if trade barriers don't decline further, this will put a brake on the globalisation of both markets and production

THE CHANGING SHAPE OF THE GLOBAL ECONOMY

- the global economy has changed shape dramatically over the past 50 years:
  1. US, Western Euro & Japan dominated the economy and trade
  2. same countries dominated FDI
  3. MNCs from these countries dominated on the international business scene
  4. half the globe was off-limits to Western international businesses (Communist, centrally-planned economies)

Changing World Output and World Trade Picture

- 1960s, US had 40% of world output… 2015, US had 16% (but still world's largest)
- UK, Germany and France all declines relative to China and India's rapid economic growth
- 1970s: world production and trade was bi-polar <— dominated by US and West Europe
- 1990s: became tri-polar with rise of Japan
- end of 2000s: same countries still dominate, but China and India contribute more than any one of the countries in West Europe, with output also surpassing Japan, Brazil & Russia —> new pattern of world output
- emerging BRIC economies are increasing their share of world output, but a strong US economy is still needed to support growth and development in these countries
- declining economic dominance of UK, Japan and Germany is signalled by the rise of the G20 as opposed to the G8
- **Group of Eight (G8)** — an international forum comprising the government representative of Western industrial economies: Canada, France, Germany, Italy, Japan, Russia, the UK and the US
  - 900 million people
  - authoritarian states such as China, Russia and Saudi Arabia have more influence now, and harbour concerns about the US-led global capitalism
  - implication is that many of tomorrow's economic opportunities will be found in developing nations of the world