BUS 201: INTRODUCTION TO GLOBAL BUSINESS

WEEK 1: THE IMPLICATIONS OF GLOBALISATION

Globalisation – the shift towards a more integrated and interdependent world economy.

Outsourcing means that tasks were previously performed in-house are now purchased from another firm.

Offshoring means that a task previously performed in one country is now being undertaken abroad.

Globalisation of market – In many markets the emergence of a global marketplace has begun to occur. There are three causes: falling barriers to cross-border trade have made it easier to sell internationally; tastes and preferences are converging on some global norm helping to create a global market; and firms are facilitating the trend by offering standardized products worldwide creating a global market.

The **globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of **factors of production** (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

- E.g. **Ford Fiesta** everything manufactured overseas, Boeing 787 Dreamliner put together in Australia but material is all from overseas and all over the world. (Cheaper or higher quality)

Globalization has created the need for institutions to help manage, regulate and police the global marketplace. Institutions that have been created to help perform these functions are the **General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank, and the United Nations.**

The **World Trade Organization (WTO)** is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties. The **International Monetary Fund (IMF)** was created to maintain order in the international monetary system and the World Bank was set up to promote economic development. The **United Nations (UN)** was created to preserve peace through international cooperation. **The G20** forum through which major nations tried to launch a coordinated policy response to the 2008-2009 global financial crisis.

<u>Drivers of globalisation –</u>

The two macro factors underlie the trend towards greater globalization: the decline in the barriers to free flow of goods, services, and capital; and technological change in communications, information processing, and transportation technologies.

Declining barriers to the free flow of goods, services, and capital

- average tariffs are down
    - Declining trade & investment barriers
        - more favourable environment for FDI
        - facilitates global production

The lowering of trade barriers made globalization of markets and production a theoretical possibility, technological change made it a tangible reality. Managers today operate in an environment that offers more opportunities, but is also more complex and competitive than that of a generation ago.

- Illustrate how the global economy has changed over the past 50 years.

In the 1960s: the U.S. dominated the world economy and the world trade picture, U.S. multinationals dominated the international business scene, and about half the world – the centrally planned economies of the communist world –was off limits to Western international business.

The share of world output generated by developing countries has been steadily increasing since the 1960s. There has been a sustained growth in cross-border flows of foreign direct investment.

The collapse of communism in Eastern Europe represents a host of export and investment opportunities for Western businesses. The economic development of China presents huge opportunities and risks, in spite of its continued Communist control. Mexico and Latin America also present tremendous new opportunities both as markets and sources of materials and production.

- Justify the labelling of the twenty-first century as the Emerging Markets Century.

Firms should be aware that while the more integrated global economy presents new opportunities, it also could result in political and economic disruptions that may throw plans into disarray

The world is moving toward a more global economic system but globalisation brings risk.

- Debate the impact of globalisation on issues such as job security, income inequality and the environment.

Supporters of globalization argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently.

Critics of globalization worry that jobs are being lost to low-wage nations.

Globalisations effect on Labour policies & the environment

Critics of globalization argue that that free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries with lax environmental and labor regulations.

Supporters of free trade point out that tougher environmental regulation and stricter labor standards go hand in hand with economic progress and that foreign investment often helps a country to raise its standards.

Globalisations effect on National sovereignty

Critics of globalization worry that economic power is shifting away from national governments and toward supranational organizations such as the World Trade Organization (WTO), the European Union (EU), and the United Nations.

However, **supporters** of globalization contend that the power of these organizations is limited to what nation-states agree to grant, and that the power of the organizations lies in their ability to get countries to agree to follow certain actions.

Globalisations effect on the World's poor

Critics of globalization argue that the gap between rich and poor has gotten wider and that the benefits of globalization have not been shared equally.

Supporters of free trade suggest that the actions of governments have made limited economic improvement in many countries.

- Compare how the management of international business differs from the management of domestic business.

Managing an **international business** (any firm that engages in international trade or investment) is different from managing a domestic business because countries differ, managers face a greater and more complex range of problems, international companies must work within the limits imposed by governmental intervention and the global trading system, and international transactions require converting funds and being susceptible to exchange rate changes.

WEEK 2: INTERNATIONAL TRADE AND INVESTMENT THEORY

Free trade refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country or what they can produce and sell to another country.

Trade generations a more efficient utilisation of resources and greater competitive forces and is thus a stimulus to economic growth.

- Understand the theories explaining trade flows between nations.

International trade allows a country to specialize in the manufacture and export of products that it can produce efficiently, and import products that can be produced more efficiently in other countries.