1. GLOBALISATION

- Global inter-connectedness as barriers to cross-border trade and investment are declining. National economies are merging into an interdependent, integrated global economic system (exemplified by the GFC).
- Globalisation results in foreign competition, meaning jobs are no longer protected from foreign competition.
    - Outsourcing: the 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.
- Globalisation: the shift towards a more integrated and interdependent world economy.
- Globalisation of markets: the merging of historically distinct and separate national markets into one huge global marketplace.
    - Results in global uniformity as markets of different countries become the 'global market'
    - Even small and medium sized companies benefit from the globalisation of markets e.g. exports.

GLOBALISATION OF PRODUCTION

- Globalisation of production: 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: components of production such as labour, technology, land and capital.
    - Companies take advantage of different countries' factors of production to lower their overall cost structure or improve the quality of functionality of their product offering.
    - Companies increasingly using internet to outsource service activities to low-cost producers in other nations.

EMERGENCE OF GLOBAL INSTITUTIONS

- General Agreement on Tariffs and Trade (GATT): an international treaty that committed signatories to lowering barriers to the free flow of goods across national borders; a predecessor to the WTO.
- World Trade Organisation (WTO): the organisation that succeeded the GATT and now acts to police the world trading system.
- International Monetary Fund (IMF): the international institution set up to maintain order in the international monetary system.
- World Bank: the international organisation set up to promote economic development, primarily by offering low-interest loans to governments of poorer nations.
- BRIC: Brazil, Russia, India and China; a group of emerging economic powers in the global economy
- United Nations (UN): An international organisation made up of 192 countries charged with keeping international peace, developing cooperation between nations and promoting human rights.
- United Nations Conference on Trade and Development (UNCTAD): a UN body that promotes the integration of developing countries into the world economy as a means of attaining sustainable economic development.

DRIVERS OF GLOBALISATION

- International trade: when a firm exports goods or services to buyers in another country.
    - More and more production by firms is destined for export markets and not just domestic markets.

  - More firms are dispersing parts of their production process to different locations around the globe to drive down production costs and increase product quality.
  - The economies of the world's nation-states are becoming more intertwined. As trade expands, nations are becoming increasingly dependent on each other for important goods and services.
- Foreign direct investment (FDI): when a firm invests resources in business activities outside its home country, giving it some control over those activities.
  - FDI was seen as a way of 'jumping over' and circumventing trade barriers'
  - Increase in FDI driven by political and economic changes in world's developing nations. There was a general shift towards democratic political institutions and free market economies.
  - Globalisation of the world economy has a positive impact on the volume of FDI. Firms see the whole world as their market and undertake FDI to make sure they have significant presence in many regions of the world..
- 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.

ROLE OF TECHNOLGOICAL CHANGE

- Moore's Law: The premise that the power of microprocessor technology doubles and its cost of production drops by half every 18 months.
- Growth of internet technology has allowed small firms to sell into international markets by reaching a wide audience without much expense.
- Influences on transportation technology efficiency:
  - Efficiency of clearance process by border control agencies
  - Quality of trade and transport infrastructure (ports, roads, rail, ICT)
  - Ease of arranging competitively priced shipments
  - Competence and quality of transport operators and customs brokers
  - Ability to track consignments
  - Timeliness of delivery
- As transport costs associated with the globalisation of production declined, dispersal of production to geographically separate locations became more economical.

THE CHANGING SHAPE OF THE GLOBAL ECONOMY

- Group of Eight (G8): an international forum comprising the government of Western industrial economies: Canada, France, Germany, Italy, Japan, UK, US, Russia.
- Group of Twenty (G20): an international forum comprising the government representatives of the G8 and other economies, including the emerging economies such as Brazil, China and India, as a reflection of their rising global economic and political power.
  - G20 has risen to prominence at the expense of the G8. G20 has become the premium forum when collective economic leadership and problem solving are called for to address such global issues as energy security, climate change and international financial regulation. More influence of authoritarian states such as China, Russia and Saudi Arabia.
- Sovereign Wealth Fund (SWF): a government controlled fund that manages and invests in government savings.
  - Most is invested in financial assets such as foreign government bonds and non-controlling holdings of company shares
  - Only makes up a small amount of FDI but attracts a lot of scrutiny because:

- Small but rapidly expanding FDI – also very concentrated in particular countries and sectors
- Much of the recent growth comes from the large balance of payments surpluses run.
- Accumulating foreign exchange reserves on an unprecedented scale as a result of government intervention to maintain undervalued exchange rates for their currencies.
- Many investments are in China, Russia and West Asia where authoritarian governments rule and lack transparency and accountability.

EMERGING MARKETS

Countries tend to be described as emerging markets if they are judged to have met standards relating to one or more of the following:

- The size of the economy in terms of population and national production
- The wealth of the country in terms of rising per capita incomes, burgeoning middle class and reduced poverty
- The openness of the country to foreign trade and investment
- The rate of growth of the economy
- The prospect of further growth and development as indicated by the quality of its people and resources and the maturity and stability of its economic, political and social institutions
- The transition to a more business-friendly, market economy.

THE GLOBALISATION DEBATE

For Globalisation:

- Decreased barriers, increased trade -> more prosperity
- Increased international trade and cross-border investment will result in lower prices for all goods and services
- Stimulates economic growth
- Creates jobs in all countries - specialisation

Against globalisation:

- Loss of jobs from foreign competition
- Manipulation of globalisation for corporate benefits
- Destruction of environment and exhaustion of natural resources by global capitalism
- Pursuit by governments of business-friendly policies post-GFC that have cut social services and resulted in huge job losses.
- Manufacturing and servicing sector being sent offshore.
    - Results in income inequality in both the developed and developing countries as the offshored job is seen as low skilled in the developed country but high skilled in the developing country.
    - If low income workers disproportionately work for low-productivity, low-profit firms, and these firms suffer most from import competition, trade will increase income inequality by reducing the employment opportunities and/or lowering the relative wages of the low-income workers.
- Lower wages – depressed wages in developed nations
- Technological advances can destroy low-skilled jobs.
- Exploitation of workers

GLOBALISATON AND THE WORLD'S POOR

- International Income Inequality: a measure of the income inequality based on the average income per capita of the country in which they live
- Global inequality: a measure of income inequality based on an individual's income regardless of the country in which they live.

GLOBALISATION: SUMMARY

1. Over the past three decades, we have witnessed the globalisation of markets and production. There is greater integration and interdependence of economies as witnessed by the GFC.
2. The globalisation of markets implies that national markets are merging into one huge market place. However there are still significant differences in culture, politics and economies which exist and the adaptation of products and strategies to local conditions is often necessary for international business to succeed.
3. Globalisation of production implies that firms basing individual productive activities at the optimal world locations for the particular activities, often resulting in the offshoring of activities that were once conducted at home -> resulting in 'global products'.
4. Two factors seem to underlie the trend towards globalisation:
    a. Declining trade barriers
    b. Changes in communication, information and transportation technologies
5. Because of globalisation, world trade has grown faster than world output, foreign direct investment has surged, imports have penetrated more deeply into the world's industrial nations and competitive pressures on industry have increased.
6. Events such as GFC, rise of sovereign wealth funds and climate change can provoke trade and investment protectionist sentiment and have the potential to stall trade and investment liberalisation and globalisation.
7. Technological advancements means it is no longer necessary to produce goods close to where they are consumed resulting in a rapid increase in trade and FDI as well as offshoring both of manufactured goods and services.
8. Technological advances, especially the internet, has helped firms link their worldwide operations into sophisticated information networks. Firms are able to achieve tight coordination of their worldwide operations and to view the world as a single market.
9. Shape of economy has changed – more countries driving economic growth rather than the original ones (multipolarity).
10. Multi-polar global economy is evident resulting in changing source and destination of trade and FDI.
11. Collapse of communism in Eastern Europe, China rising as an economic power created enormous long-run opportunities for international businesses.
12. Benefits and costs of globalisation are debated. Debate focuses on impact on jobs, wages, working conditions, poverty, income inequality both within and across nations.
13. Managing international business is different from domestic. It is more challenging due to a variety of reasons including country differences, wider range of more complex problems; greater intensity of competition; increased likelihood of government intervention, home and host; complexity of conducting transactions in different currencies.

INTERNATIONAL BUSINESS

International business: any firm that engages in international trade or investment.

- International business consists of all commercial transactions that take place between two or more countries – (Daniel et al. 2009, p. 49)

- International business refers to business activities that straddle two or more countries - (Morrison 2006, p. 5)
- Multinational enterprise (MNE) is any business that has productive activities in two or more countries (p. 26)

TYPES OF IB TRANSACTIONS

Transaction: trade of values between two parties (buyer and seller); intermediates also often involved

- Companies and shares/stocks – Investors
- Investment banks, analysts, etc.

Transactions by private or public enterprises Exchanging (combinations of):

- Goods
- Services
- Technology
- Capital
- Ideas and intellectual property

SIGNIFICANCE OF BORDERS AND BOUNDARIES

State boundaries

- How do you know when you are in Australia?
- Denote sovereignty (political and legal boundaries; the nation-state system)

Cultural boundaries

- States and nations do not always coincide
- The nation-state is a modern invention and "myth."

Economic boundaries

- Most economic transactions take place within borders

Boundaries of 'mind and habits'

- Borders are both psychological, social, and physical
- "Vegemite"—where else would you eat that stuff?

ARE ALL BUSINESSES INTERNATIONAL?

'As the world shifts towards a truly integrated global economy, more firms, both large and small, are becoming international businesses.'

- Free trade agreements (e.g., between Korea and Australia)

If true, what should managers do? Or what do they need to know and understand?

- What do we mean by "becoming international"?
- What is the kind of mindset you need to develop as an international business?

Managers need to understand the contexts within which they operate in order to evaluate opportunities and risks, to make decisions and to take action.

Memo from boss: as a new recruit of a MNE, why do you think international business is important to the company, and what are the key challenges we face?

Context + Action = Performance

- Need to think about and understand (international) context
- Need to think about appropriate action that is needed to be successful in a given context.

WHY IS INTERNATIONAL BUSINESS DIFFERENT?

- Potential benefits of the global market
- Distance and cost of doing business
- Operating in an unfamiliar environment
    - Western vs. non-western
    - Religious vs. non-religious (e.g., McDonald's in India)
    - Democracy vs. authoritarian (e.g., Google in China)
- Political, social, cultural, legal, and economic differences
- Protectionism of governments
- Different currencies used in transactions
- Lack of 'world government': no final arbitrator to set rules, resolves disputes, enforce agreements
    - This is perhaps the most important feature of globalization.
    - Different from empires

MANAGING AN INTERNATIONAL BUSINESS COMPARED TO A PURELY DOMESTIC BUSINESS

Six reasons:

- Countries are different – political, legal, economic and cultural systems
- Range of problems confronted by a manager in an international business is wider
- The problems themselves are more complex and the knowledge demands much higher
- The competition will be more intense
- International business must find a way to work within the limits imposed by government intervention in the international trade and investment system
- International transactions involve converting money into different currencies.