

## Chapter 3

# The Concept of Globalization

# Introduction

Popularized from mid 1980s to mid 1990s.

Definitions:

- The process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture.
- The widening, deepening and speeding up of global interconnection.
- The interplay across cultures of macro-social forces such as religion, politics and economics.

Pace of globalization – rapid since early 20<sup>th</sup> century

Effect: They generate interdependent economic and cultural activities

# Global Market Place

Factors creating a global market place over the last 20 years:

- ✓ Reduction in tariffs
- ✓ Quotas
- ✓ Removal of barriers to free trade
- ✓ Improvements in global transportation systems
- ✓ Improvements in global communication systems
- ✓ Explosive expansion in internet usage
- ✓ Increasing sophistication international markets.
- ✓ Cross boundary environmental issues such as: water and air pollution

# Elements of Globalization

- Trans-border capital
- Labour
- Management
- News, images
- Data flows.

# Dimensions of Globalization

- **Economics globalization** - Trade, money, corporations, banking, capital, etc
- **Political globalization** - governance, war, peace, IGOs, NGOs, regimes, etc
- **Socio-cultural globalization** - communities, conflict, societal classes, nations, agreements, racial issues etc.
- **Communications globalization** - information as knowledge and tools for internationalization – INTERNET, everything anchored in space

# Reasons to Globalize

- **Reduce Costs** - Foreign locations with direct and indirect costs i.e. labour, taxes, tariffs, etc.
- **Improve the Supply Chain** - Locating facilities closer to unique resources, E.g. Cocoa processing plant to Ghana, Perfume manufacturing in France
- **Provide Better Goods and Services** – E.g. On-time deliveries, cultural variables, improved customer services, etc.
- **Understand Markets** - Interacting with foreign customers and suppliers can lead to new opportunities
- **Learn to Improve Operations** – Opening company doors to learn via partnerships. E.g. GM learnt new production and inventory control methods via a partnership with Japanese auto maker.
- **Attract and Retain Global Talent** – Opens access to best calibre of employees. Also helps in reorganizing labour market.

# Implications of Globalization

- **Heightened International competition:** Expanded playing field with stiffer competition – Chinese companies stunned US and European companies with enormous patronage of their products.
- **Successful local companies may lose out to others on quality, price etc.** – related to first point. E.g. Japanese cars outdoing American ones since mid 80's on quality and pricing
- **Greater access to new markets, customers and skilled workers** – E.g. Traditional US companies like Nike, FedEx, UPS seeking to grow sales in emerging economies such as China, India, Russia, Brazil, Africa, Eastern Europe and Latin America.

# Implications of Globalization

- Heightened international competition threatens eroding profitable gains made in local markets.
- It comes with movement/relocation of jobs: Evidence in ongoing transfer of financial services, high-tech jobs, etc. from western Europe to less expensive labour markets such as China, India, Nigeria.
- Internet further fuels globalization via providing companies greater access to geographically dispersed customers, employees and suppliers.



# Cultural and Ethical Issues and Globalization

Differences may exist regarding:

- Punctuality
- Environment
- Intellectual property
- Bribery
- Child labor

Etc.

# Benefits of Globalization

**Active participation in globalization can improve:**

- National literacy rate and rate of innovation
- Rate of technology change and number of skilled workers
- Political stability and product liability laws
- Export restrictions and tax rates
- Variations in language, population
- Work ethics and phone systems
- Inflation and interest rates
- Availability of raw materials , number miles of highways

# Economic Globalization

- Process of increasing economic integration / interdependence of countries leading to a single global market place characterised by rapid movement of goods, service, technology (production methods) and capital. Comprises the globalization of production, markets, competition, technology, financial institutions, corporations and industries.

# Economic Globalization

- Globalization of business – spiraled by lowering of international trade regulations, tariffs, taxes, and other impediments that suppress global trade.
- Can be viewed as either a positive or a negative phenomenon.
- Current globalization trends – Largely accounted for by DCs integrating with LDCs FDI, eroding trade barriers, economic reforms and sometimes immigration.

# Economic Globalization

## Success Stories:

- Chinese economic reform opened China to globalization in 1980s, allowing competition from foreign goods in almost every sector. FDI helped increase quality, knowledge and standards, especially in heavy industry.
- Singapore's participation in globalization aided its transformation into a highly developed country
- Assertion - Globalization greatly increases wealth for poor countries.

# Economic Globalization

Success Stories: Africa as a whole and Ghana in particular have also benefited by way of increase in trade partners, increasing imports and exports.

IMF identified four basic aspects of globalization:

- **Trade and transactions**
- **capital and investment movements**
- **migration and movement of people and**
- **The dissemination of knowledge.**

# Global Business Organization

International business comprises all commercial transactions (sales, investment, logistics and transportation) between two or more countries or regions beyond their political boundary. Resulted in the formation of:

**Multinational Enterprises (MNE)** – a.k.a (multinational corporation -MNC) or (transnational company -TNC) - Have a worldwide approach to markets and production or operate in more than one country.

# Global Business Organization

Examples: Fast food – McDonald's;  
Manufacturing – GM, Toyota; Consumer  
electronics – Samsung, LG; Energy – Shell,  
ExxonMobil.

Arguments for MNE – To survive competition in  
the global marketplace imperative to source for  
goods, services, labour and materials overseas to  
upgrade products and technology



# International Trade

- Absolute trade advantage – producing a given quantity at a lower cost or with fewer resources compared to competitors
- Comparative cost advantage – **Producing at a lower opportunity cost** (other uses of the resource) compared to competitors. By the same reasoning, it should import
- These extends the range of possible mutually beneficial exchanges or trade in items with higher comparative cost advantage - essential to remaining competitive.

# Trade Agreements, Economic Blocks and Special Trade Zones

A **Special Economic Zone (SEZ)** is a geographical region that has economic and other laws that are more free-market-oriented than a country's typical or national laws. "Nationwide" laws may be suspended inside these special zones.

# Trade Agreements, Economic Blocks and Special Trade Zones

'SEZ's include:

- Free Trade Zone (FTZ),
- Export Processing Zones (EPZ),
- Free Zones(FZ),
- Industrial parks or Industrial Estates (IE),
- Free Ports
- Urban Enterprise Zones
- Etc.

# Trade Agreements, Economic Blocks and Special Trade Zones

- Aim – to increase FDI from MNCs by lowering or abolishing taxes in these areas to encourage economic activity.
- FTZ - goods may be landed, handled, manufactured or reconfigured, and re-exported without customs intervention except when sold to domestic consumers. Usually located in international sea and air ports, national borders. Usually a multinational agreement to exclude trade barriers.

# Trade Agreements, Economic Blocks and Special Trade Zones

- Free Trade Area – Trade Bloc - member countries signed a free-trade agreement eliminating tariffs and import quotas on most/all products traded among member states. There's also free movement of people (open border) E.g. EU – 27 countries.

# Global Information Systems

GIS is a data communication network that crosses national boundaries to access and process data in order to achieve corporate goals and strategic objectives. Developing an GIS is a challenge for multi-nationals. They use the internet to access information from all computers connected to the World Wide Web.

**Roles of GIS** - They ensure desirable characteristics of products and services such as:

1. Quality
2. Environmental friendliness
3. Safety
4. Reliability
5. Efficiency
5. Economical Interchangeability
5. For businesses, GIS enables suppliers to develop and offer products that meet widely acceptable, thereby specifications, thereby enhancing their competitiveness.

# Self assessment questions

1. “The value of globalization and international business is increasingly being called into question”. To what extent would you agree to this assertion as a prospective operations director.
2. State and explain four reasons why modern establishments must buy into the concept of globalization.
3. Explain the term “**trans-border capital**” as an element of globalization
4. Discuss the disadvantages of globalization

# Self assessment questions

1. "Globalization is a fact of life. But it is believed to have underestimated its fragility." *To what extent do you understand this assertion?*
2. "Globalization, as defined by rich people like us, is a very nice thing... you are talking about the Internet, you are talking about cell phones, you are talking about computers. This doesn't affect two-thirds of the people of the world." *To what extent do you understand this assertion?*