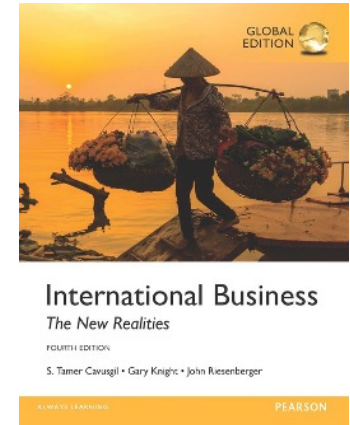


Chapter

2



Globalization of Markets and the Internationalization of the Firm

**Presented by
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Overview on Globalization of Markets

- *Globalization* and *technological advances* have altered the international business landscape more than any other trends.
- In this class, *globalization* refers to the interconnectedness of national economies and the growing interdependence of buyers, producers, suppliers, and governments around the world.
- Globalization allows firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge.

Dimensions of Market Globalization

- ***Integration and interdependence of national economies.*** Results from firms' collective international activities. Governments contribute by lowering trade and investment barriers.
- ***Rise of regional economic integration blocs.*** Free trade areas are formed by two or more countries to reduce or eliminate barriers to trade and investment, such as the EU, NAFTA, and MERCOSUR.



Dimensions of Market Globalization (cont'd)

- ***Growth of global investment and financial flows.***

Associated with rapid growth in foreign direct investment (FDI), currency trading, and global capital markets.



- ***Convergence of buyer lifestyles and preferences.*** Facilitated by global media, which emphasize lifestyles found in the U.S., Europe, or elsewhere. Firms market standardized products.

Dimensions of Market Globalization (cont'd)

- ***Globalization of production.*** To cut costs, firms manufacture in low labor-cost locations such as Mexico and Eastern Europe. Firms also source services from abroad.
- ***Globalization of services.*** Banking, hospitality, retailing, and other service industries are rapidly internationalizing. Firms outsource business processes and other services in the value chain to vendors overseas. And, in a new trend, many people go abroad to take advantage of low-cost services.

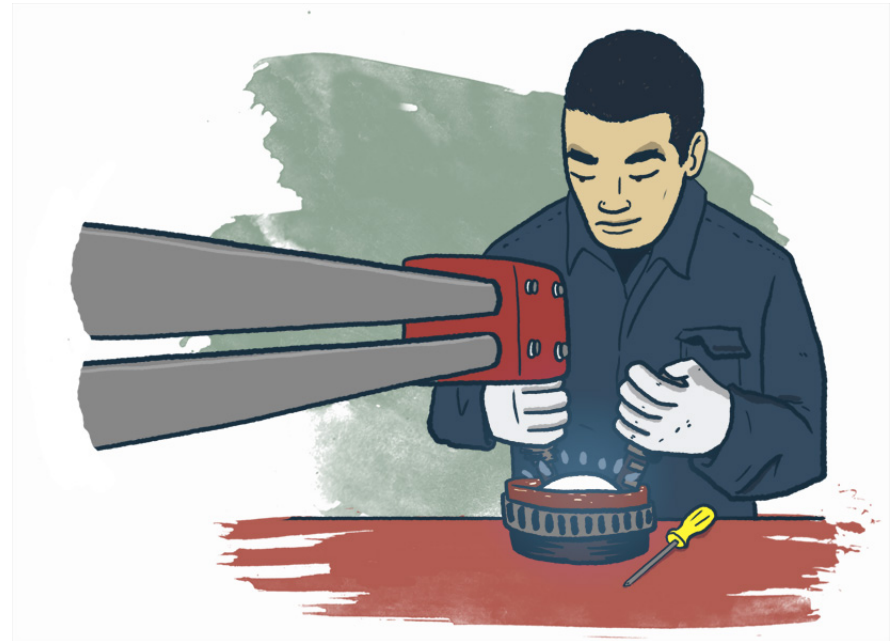
Drivers of Market Globalization

- ***Worldwide reduction of barriers to trade and investment.*** Over time, national governments have greatly reduced trade and investment barriers. The trend is partly facilitated by the ***World Trade Organization*** (WTO), an organization of some 150 member nations.
- ***Market liberalization and adoption of free markets.*** The launch of free market reforms in China and the former Soviet Union marked the opening of roughly 1/3 of the world to freer trade.

Drivers of Market Globalization (cont'd)

- ***Industrialization, economic development, and modernization.*** These trends transformed many developing economies from producers of low-value to higher-value goods, such as electronics and computers.

Simultaneously, rising living standards have made such countries more attractive as target markets for sales and investment.



Drivers of Market Globalization (cont'd)

- ***Integration of world financial markets.*** Enables firms to raise capital, borrow funds, and engage in foreign currency transactions wherever they go. Banks now provide a range of services that facilitate global transactions.
- ***Advances in technology.*** Reduces the cost of doing business internationally, by allowing firms to interact cheaply with suppliers, distributors, and customers worldwide. Facilitates the internationalization of companies, including countless small firms.



Source: Arto/Fotolia

Information and Communications Technology (ICT)

- Profound advances have occurred in computers, digital technologies, telephony, and the Internet.
- MNEs leverage ICTs to optimize their performance, managing operations around the world.
- ICTs opened the global marketplace to firms that historically lacked the resources to internationalize.



Manufacturing and Transportation Technologies

- Revolutionary developments permit manufacturing that is low-scale *and* low cost, via computer-aided-design of products (CAD), robotics, and IT-managed production lines.
- In transportation, key advances include fuel-efficient jumbo jets, giant ocean-going freighters, and containerized shipping. The cost of international transportation has declined substantially, spurring rapid growth in global trade.
- Collectively, technological advances have greatly reduced the costs of doing business internationally.

Societal Consequences of Market Globalization

- ***Contagion: Rapid Spread of Monetary or Financial Crises.*** Beginning in late 2008, the world economy experienced a severe financial crisis and global recession, the worst in decades. The crisis emerged when pricing bubbles occurred in housing and commodities markets worldwide. As bubbles in real estate markets burst, home values crashed and many homeowners could not repay their debts. Meanwhile, thousands of mortgages had been securitized, and their values plunged or became uncertain.

Societal Consequences (cont'd)

- ***Loss of National Sovereignty.*** MNE activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Walmart, Shell).

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However, some argue that global competition in the context of global free trade makes MNEs less powerful (e.g., The US auto industry declined as foreign rivals from Japan and Europe entered the US market. Some day, Walmart may be overtaken by a giant Chinese retailer).

Societal Consequences (cont'd)

- ***Offshoring and the Flight of Jobs.*** Jobs are lost as firms shift production of goods and services abroad, in order to cut costs and obtain other advantages. Firms benefit, communities and industries are disrupted.
- ***Effect on the Poor.*** In poor countries, while globalization usually creates jobs and raises wages, it also tends to disrupt local job pay low wages, and many exploit workers or employ child labor. Globalization's benefits are not evenly distributed.

Example

Many people in India are losing jobs as the hand-woven textiles industry is being gradually automated.

Case Study:

Nike's Foreign Factories

- Nike has 100s of factories in Asia, Latin America, and elsewhere.
- Nike has been criticized for paying low wages and operating sweatshop conditions.
- Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
- However, consideration must be given to the other choices available to people in those countries.
- Nike and numerous other MNEs are making efforts to improve working conditions in their foreign plants.

Societal Consequences of Globalization (cont'd)

- ***Effect on the Natural Environment.*** Globalization harms the environment by promoting industrialization and other activities that generate pollution, habitat destruction, and other environmental harm. e.g., As China and India industrialize, air and water pollution have become major hazards.



Societal Consequences of Globalization (cont'd)

- ***Effect on the Natural Environment.*** Globalization harms the environment by promoting industrialization and other activities that generate pollution, habitat destruction, and other environmental harm. e.g., As China and India industrialize, air and water pollution have become major environmental hazards.
- *However*, as nations develop their economies, they tend to pass laws that protect the environment. e.g., This happened in Japan from the 1960s to the 1980s. In Mexico, the government is gradually adopting policies to protect the air, water, etc.

Societal Consequences of Globalization (cont'd)

- ***Effect on National Culture.*** Globalization opens the door to foreign firms, global brands, unfamiliar products, and new values. Increasingly, consumers buy similar products, modeled according to Western countries, especially the US. In this way, traditional norms, values, and behaviors may homogenize over time. National identity may be lost to 'global' culture.

Company Internationalization and the Value Chain

- The most significant implication of market globalization for companies is that a purely domestic focus is no longer viable in most cases.
- Market globalization compels firms to internationalize their value chain, and access the benefits of international business.
- **Value chain:** The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.
- Globalization allows the firm to internationalize its *value chain*, leading to various advantages.

Ethical Connections

- In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.
- This led to a big rise in productivity and commerce, which has helped improve living standards.
- Access to cell phones saves wasted trips, provides access to education and healthcare, and facilitates communication between suppliers and customers.
- MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.